

City of Madison Heights, Michigan

**Federal Awards
Supplemental Information
June 30, 2008**

City of Madison Heights, Michigan

Contents

Independent Auditor's Report	I
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	4-5
Schedule of Expenditures of Federal Awards	6
Note to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8-12



Plante & Moran, PLLC
27400 Northwestern Highway,
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City of Madison Heights, Michigan's basic financial statements, and have issued our report thereon dated November 13, 2008. Those basic financial statements are the responsibility of the management of the City of Madison Heights, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madison Heights, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

November 13, 2008

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City of Madison Heights, Michigan's basic financial statements, and have issued our report thereon dated November 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Madison Heights, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Madison Heights, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Madison Heights, Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-3 and 2008-04 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe the deficiencies described in the schedule of findings and questioned costs as items 2008-01 and 2008-02 constitute material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Madison Heights, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Madison Heights, Michigan's response to the significant deficiencies and material weaknesses identified in our audit described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 13, 2008

Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Compliance

We have audited the compliance of the City of Madison Heights, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The major federal programs of the City of Madison Heights, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Madison Heights, Michigan's management. Our responsibility is to express an opinion on the City of Madison Heights, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Madison Heights, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Madison Heights, Michigan's compliance with those requirements.

In our opinion, the City of Madison Heights, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Internal Control Over Compliance

The management of the City of Madison Heights, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Madison Heights, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 13, 2008

City of Madison Heights, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development: Section 8 Voucher	14.871	N/A	\$ 1,817,683	\$ 1,677,156
Community Development Block Grant - Passed through Oakland County, Michigan:	14.218	Unit 21		
2007			136,637	77,942
2008			433,858	<u>383,852</u>
Total Community Development Block Grant				<u>461,794</u>
Total U.S. Department of Housing and Urban Development				2,138,950
Bureau of Justice Assistance - Federal Equitable Sharing Program	16.unknown	N/A	6,093	6,093
U.S. Department of Homeland Security - Passed through Oakland County, Michigan - Urban Area Securities Initiative Project	97.008	N/A	13,028	<u>13,028</u>
Total federal awards				<u>\$2,158,071</u>

City of Madison Heights, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Madison Heights, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

A reconciliation of the City's basic financial statements federal source revenue presentation with the schedule of expenditures of federal awards is as follows:

Federal revenue reported in the governmental funds in the basic financial statements	\$ 469,891
Federal revenue reported in the Housing Commission as operating grants and contributions	1,782,409
Federal revenue reported in the Housing Commission as operating grants and contributions but not yet spent	(141,399)
Federal revenue reported in the Housing Commission as miscellaneous general revenue	36,146
Non-federal revenue reported as federal in the General Fund	(2,126)
Federal reimbursement not recorded as revenue in the current year because it was not received within 60 days of year end	13,028
Federal revenue reported in the Community Improvement Fund as miscellaneous general revenue	<u>122</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 2,158,071</u></u>

City of Madison Heights, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? X Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? X Yes None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes X No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.871	Section 8 Voucher
14.218	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

City of Madison Heights, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings

Reference Number	Findings
2008-I	<p>Finding Type - Material weakness</p> <p>Criteria - Management's goal is to adequately recognize expenditures in accordance with generally accepted accounting principles. Those principles require recognition of expenditures in the period incurred. Any expenditures incurred during the year but paid after year end should be recorded as a liability at year end.</p> <p>Condition - The process related to recognizing expenditures incurred during the year but paid after year end had an impact on the City's financial reporting. Certain expenditures related to construction projects, including retainages, were not included in the preliminary accounting records at the initiation of the audit process. After discussion with management during the audit, these transactions are now appropriately recorded.</p> <p>Context - These amounts relate to the Major Streets Fund and are material.</p> <p>Effect - Expenditures and accounts payable were understated in the preliminary accounting records.</p> <p>Cause - The City does not have adequate procedures in place related to identifying expenditures incurred prior to year end and paid after year end.</p> <p>Recommendation - We recommend that the City adopt a process whereby disbursements made after year end through the audit are reviewed with the intent of properly recognizing expenditures in the correct period. The City currently reviews disbursements through July 31; however, we recommend extending this review until the audit is complete. Further, we recommend the City increase communications between the department heads and the finance department regarding on-going construction projects at year end in order to identify retainages.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Madison Heights, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2008-2	<p>Finding Type - Material weakness</p> <p>Criteria - Management's goal is to adequately record the interfund activity between the Local Streets Fund and the Revolving Fund.</p> <p>Condition - An interfund advance between the Local Roads Fund and the Revolving Fund was recorded twice in the preliminary accounting records. No controls were in place to ensure the proper year-end balance was recorded for the advance. As a result of the audit, entries were posted to reflect the proper balance.</p> <p>Context - The adjustments related to the Local Streets Fund and the Revolving Fund and were material.</p> <p>Effect - Interfund advances were misstated in the preliminary accounting records.</p> <p>Cause - The City lacks a system to ensure activity related to advances is properly recorded.</p> <p>Recommendation - We recommend that the City implement as part of its process a procedure to ensure that interfund balances are properly recorded.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Madison Heights, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2008-3	<p>Finding Type - Significant deficiency</p> <p>Criteria - Management's goal is to accurately record capital asset balances in the financial statements and to maintain a fixed asset module that supports the balances recorded in the financial statements.</p> <p>Condition - The fixed asset module in which the City maintains the detailed support for the capital asset balances recorded in the financial statements contains unreconciled discrepancies. Additionally, there were two assets in the detailed module that were recorded twice in the accounting records. An audit adjustment was made to reduce the balance in the accounting records for the asset that was recorded twice.</p> <p>Context - The adjustment related to the government-wide financial statements.</p> <p>Effect - The capital asset balance was overstated in the preliminary accounting records. Additionally, there are unreconciled differences between the accounting records and the supporting detail.</p> <p>Cause - The City lacks a system to ensure capital asset balances in the accounting records reconcile to the fixed asset module.</p> <p>Recommendation - We recommend that the City implement, as part of its year-end process, a procedure to reconcile the capital asset balances in the accounting records to the fixed asset module.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Madison Heights, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2008-4	<p>Finding Type - Significant deficiency</p> <p>Criteria - Management's goal is to adequately recognize revenue in accordance with governmental accounting standards. Those standards require recognition in the period earned as long as payment is received within 60 days of year end.</p> <p>Condition - The process related to recognizing revenue related to an insurance reimbursement that was earned during the year and received within 60 days after year end had an impact on the City's financial reporting; these revenues were not included in the preliminary accounting records at the initiation of the audit process.</p> <p>Context - The amount relates to the General Fund, the Water and Sewer Fund, and aggregate remaining funds and the likelihood that the amount of the reimbursement would ever be material to any one fund is more than remote.</p> <p>Effect - The revenue and accounts receivable balance in the General Fund, Water and Sewer Fund, and aggregate remaining funds is understated at year end.</p> <p>Cause - The City does not have adequate procedures in place related to identifying revenue received after year end and recording it in the appropriate period.</p> <p>Recommendation - We recommend that the City adopt a process whereby revenue received within 60 days after year end is reviewed with the intent of properly recognizing the revenue in the correct period based on the nature of the revenue.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

Section III - Federal Program Audit Findings

None

City of Madison Heights, Michigan

Comprehensive Annual Financial Report June 30, 2008

City of Madison Heights, Michigan

Contents

Introductory Section

Letter of Transmittal	i-xx
GFOA Certificate of Achievement	xxi
Organizational Chart	xxii
List of Principal Officials	xxiii

Financial Section

Report Letter	1-2
Management's Discussion and Analysis	3-10

Basic Financial Statements

Government-wide Financial Statements:

Statement of Net Assets	11
Statement of Activities	12-13

Fund Financial Statements:

Governmental Funds:

Balance Sheet	14-15
Reconciliation of Fund Balances to the Statement of Net Assets	16
Statement of Revenue, Expenditures, and Changes in Fund Balances	17-18
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19

Proprietary Fund - Enterprise - Water and Sewer Fund:

Statement of Net Assets	20
Statement of Revenues, Expenses, and Changes in Net Assets	21
Statement of Cash Flows	22

Fiduciary Funds:

Statement of Net Assets	23
Statement of Changes in Net Assets	24

Component Units:

Statement of Net Assets	25
Statement of Activities	26-27

Notes to Financial Statements	28-59
-------------------------------	-------

City of Madison Heights, Michigan

Contents (Continued)

Required Supplemental Information	60
Budgetary Comparison Schedules:	
General Fund	61
Major Streets Fund	62
Local Streets Fund	63
Revolving Fund	64
Pension System Schedule of Funding Progress	65
Pension System Schedule of Employer's Contributions	66
Police and Fire Other Postemployment Benefits Trust Schedule of Funding Progress	67
Note to Required Supplemental Information	68-70
Other Supplemental Information	71
Nonmajor Governmental Funds:	
Combining Balance Sheet	72
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	73
Agency Funds:	
Combining Balance Sheet	74
Statement of Changes in Assets and Liabilities	75
Budgetary Comparison Schedules:	
Nonmajor Special Revenue Funds:	
Community Improvement Fund	76
Forfeiture Fund	77
Park Improvement Fund	78
Capital Projects - Fire Station Fund	79
Debt Service - Fire Station Fund	80
Trust Funds:	
Combining Statement of Net Assets	81
Combining Statement of Changes in Net Assets	82
Police and Fire Retirement System - Schedule of Changes in Reserves	83
Component Units:	
Balance Sheet/Statement of Net Assets	84
Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities	85

City of Madison Heights, Michigan

Contents (Continued)

<u>Statistical Section</u>	86-87
Financial Trend Information:	88
Net Assets by Component	89
Changes in Governmental Net Assets	90
Changes in Business-type Net Assets	91
Fund Balances, Governmental Funds	92
Changes in Fund Balances, Governmental Funds	93-94
Revenue Capacity Information:	95
Assessed Value and Actual Value of Taxable Property	96-97
Direct and Overlapping Property Tax Rates	98-99
Principal Property Taxpayers	100
Property Tax Levies and Collections	101
Debt Capacity Information:	102
Ratios of Outstanding Debt	103-104
Ratios of General Bonded Debt Outstanding	105
Direct and Overlapping Governmental Activities Debt	106
Legal Debt Margin	107-108
Pledged-revenue Coverage	109
Demographic and Economic:	110
Demographic and Economic Statistics	111
Principal Employers	112
Operating Information:	
Full-time Equivalent Government Employees	113-114
Operating Indicators	115-116
Capital Asset Statistics	117-118

November 13, 2008

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Introduction

We are submitting herewith the Comprehensive Annual Financial Report of the City of Madison Heights for the fiscal year ended June 30, 2008. It is the responsibility of the City management to present fairly, with full disclosure and in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City's funds, as well as those of the City's discretely presented component units. The Comprehensive Annual Financial Report contains necessary disclosures useful in providing an understanding of the combined and individual fund statements.

Plante & Moran, PLLC has issued an unqualified "clean" opinion on the City of Madison Heights, Michigan's financial statement for the year ended June 30, 2008. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

City Profile and Economic Conditions

Regional Setting

The City of Madison Heights is located near the southeast corner of Oakland County, adjacent to the western boundary of Macomb County and approximately two miles north of the City of Detroit. Freeway access to the southeast Michigan region is provided by Interstate-75 (I-75) and Interstate-696 (I-696). In addition, regional access is available using the bus system of the Suburban Mobility Authority for Regional Rapid Transit (SMART) system.

Local Economy

Incorporated in 1955, Madison Heights has grown and prospered significantly over the past 53 years. The City of Madison Heights continues to welcome residents, businesses, and visitors alike to a vibrant and diverse community. The City is ideally located in southeastern Michigan, within Oakland County's "Automation Alley." Madison Heights provides a full range of services to residents, visitors, and the business community and is conveniently located for employers and employees alike at the intersection of I-75 and I-696. Oakland County continues to rank high in per capita income, employment opportunities, and overall quality of life.

The City of Madison Heights exemplifies the very best in Oakland County through its excellent City services, road maintenance and snow removal, and variety of opportunities for residents and the business community. It is a fiscally sound and stable community with many advantages because of its favorable tax base, housing mix, business climate, and convenient access to other business and residential areas in southeastern Michigan.

There are more than 1,300 commercial and industrial businesses and service enterprises within the City's 7.25 square miles. The City is proud to have a majority of small businesses, as well as more than 100 major companies within its borders, such as Best Buy, St. John Macomb Oakland Hospital, Valenite Corporation, ADT, Costco, CVS Pharmacy, Henkel Technologies, Home Depot, Kmart, Lowe's, Meijer, Microcenter, Netlink, Sam's Club, Target, and United Parcel Service. It is a "City of Progress" with 22 shopping centers, 10 hotels, more than 868,000 square feet of office space, and five industrial parks that include almost 10.7 million square feet.

The City of Madison Heights is committed to working with present and future residents and businesses to continue our excellent tradition as The City of Progress!

Oakland County Economic Forecast

Nationally known economists from the University of Michigan Institute of Labor and Industrial Relations recently presented the results of the 2008-2010 Economic Outlook for Oakland County at the 23rd Annual Outlook Luncheon.

Like 2007, 2008 continues to provide challenges for the entire Southeast Michigan region including Oakland County. Despite these challenges the county has launched several initiatives to attract and retain businesses in emerging markets which has reportedly resulted in new investment of almost \$1 billion in less than four years. Initiatives such as these have continued to position Oakland County as an international business leader. With their AAA bond rating, 700 foreign-owned firms, a Mandarin language program in the public schools and an outstanding quality of life, Oakland County is still a preferred global location to live and work.

While economists are convinced that in the long run Oakland County's economic prosperity will be restored, in the near term the county is still working through some financial pain. Following the loss of 18,500 jobs in 2006, Oakland County faced dramatic improvement in 2007 when job losses dwindled to 4,800 jobs. Unfortunately 2008 is not expected to show much improvement over 2007, with job losses expected to be down 4,400. This is due to the current weakness in the national economy, auto restructuring yet to run its course, and the downturn in housing. By the start of 2009 the economic conditions of the area are forecasted to be stronger, paralleling the pickup in the national economy, which will carry through to 2010. Much of the bounce is due to ebbing of the debilitating effects expected from autos, where much of the hit has already landed. Job growth is anticipated to turn positive during this time period as the momentum from Oakland's traditionally strong sectors begins to dominate, with the county adding 1,200 net new jobs in 2009 and 5,600 in 2010.

Government employment is forecast to decline by 400 jobs in 2008 and 100 jobs in 2009, before rebounding in 2010 by 300 jobs. The job losses in 2008 are due to retrenchment in local school districts, while much of the gain in 2010 reflects the hiring of temporary census workers. This forecast includes modest job gains at Oakland University with the coming of the new medical school. Most of the benefits of that expansion will occur after 2010. Construction and the non-farm natural resource industries are projected to lose an additional 1,800 jobs over the next three years, half of them in 2008. Residential construction accounts for these entire job losses, due to a profoundly subdued local housing market. Heavy construction, such as roads, adds 200 jobs over the 2008-10 period, a gain that could evaporate if government expenditures on these activities cannot be sustained. Manufacturing is forecast to lose 2,900 jobs in 2008 and 1,100 jobs in 2009, before turning around to add 100 jobs in 2010. This represents a substantial improvement over recent history: between 2000 and 2007, the manufacturing sector lost an average of 5,600 jobs per year. Motor vehicle manufacturing takes another hit in 2008, resulting in the loss of 1,700 jobs. These losses include the elimination of a shift at Pontiac Assembly later this year and the lasting impact of the settled American Axle strike on production activity in the county. The rate of job loss diminishes in 2009, and posts a small (100) job gain in 2010. By then, however, the local motor vehicle manufacturing industry will employ about half the number of workers it did in 2000.

The majority of new jobs created in Oakland County will come from health care and social assistance, amounting to 6,100 jobs over the forecast period. This industry has added jobs every year since 1999, totaling 19,500 jobs by 2007. Much of the forecast employment gain occurs in hospitals, physicians' offices, and home health care service.

Economists are confident in Oakland County's strong economic fundamentals. Oakland has few peers among counties of similar size in combining affluence, educational standing, and affordable living. Economic development programs such as Automation Alley, and their Emerging Sectors initiative prepare a path to success that includes technology, research, health care, and ventures friendly to a senior-citizen populace that will mushroom in the coming decades.

Local Economic Base

Madison Heights is a full-service modern community. It is fiscally sound, stable, and has many advantages accruing to it because of its favorable tax base, housing mix, and business climate. City officials proudly point to the fact that almost 91 percent of the buildings are single-family homes or condominiums, while over 54 percent of the City's tax base (real and personal property) is high-yield light industrial and commercial facilities.

The diversity of the City's economic base is reflected in its building stock:

Single-family homes*	9,742	Homes
Condominiums - 9 complexes*	331	Units
Sr. Citizen Towers - 5 buildings	709	Units
Rental apartments - 29 complexes	2,457	Units
Mobile home parks - 3 locations	501	Sites
Shopping centers (1.4 million sq. ft.)	22	Centers
Hotel/Motels - 10 properties	1,028	Rooms
Offices (868,626 sq. ft.)	110	Buildings
Commercial (gas stations/retail/restaurants, etc.)	325	Buildings
Light industrial (10.7 million sq. ft.)	505	Buildings
	<hr/>	
Total units/buildings	<u>15,730</u>	

* Single-family homes range in value from \$59,900 to in excess of \$265,000; condominiums range from \$55,000 to \$156,500.

Tax Base Composition

The principal source of revenues to fund the City's operations is the property tax (69 percent of total 2007-2008 General Fund revenues). The property tax revenues are a result of applying the millage rate set by City Council within the restrictions of state law to the taxable value of real and personal property located within the City. The tables below illustrate the diversity of the City's tax base, including the DDA district, which was the basis for property tax revenue for the fiscal year 2007-2008 budget.

By Class	Taxable Value	Percent
Real property	\$ 1,061,848,230	88.0
Personal property	144,722,660	12.0
Total	<u><u>\$ 1,206,570,890</u></u>	<u><u>100.0</u></u>

By Use		
Residential	\$ 551,394,580	45.7
Commercial	269,744,810	22.4
Industrial	240,708,840	20.0
Personal property	144,722,660	11.9
Total	<u><u>\$ 1,206,570,890</u></u>	<u><u>100.0</u></u>

Total taxable value for all property within Madison Heights has grown 30 percent over the last 10 years through June 30, 2008 or over 3 percent per year on average. For the latest 12-month period, City taxable values remain flat. Real property taxable values increased by approximately 0.5 percent compared to 3.3 percent from the prior year, while personal property taxable values continue to decrease by an additional 3.6 percent compared to 0.5 percent decrease from 2006 to 2007.

Major Business

Another way to judge the strength of a city's local economy is to measure its reliance on a type of business or a single business. While some cities rely heavily on a major automotive manufacturing plant, Madison Heights' business base is made up of a large number of smaller businesses. Having smaller employers reduces the impact of any one business deciding to relocate or going out of business.

The tables below show the City's major taxpayers as of December 31, 2007, the valuation date related to the property tax revenue of the City for the year ending June 30, 2008:

Taxpayer	Type of Business	Total Taxable Value (\$ Millions)
Gordon Begin/CT Apartments/President Madison Madison Place, LLC/S&M Heights/ K410, LLC/Oakland Commerce Commons	Apartments	\$ 19.9
Detroit Edison	Shopping Center Landlord	17.8
First Industrial Ltd Partnership	Electrical Utility	10.8
Kemp & Sherman Company	Industrial Landlord	10.5
Meijer, Inc.	Industrial Landlord	10.2
BT-OH, LLC/UPS (United Parcel Service)	Retail Sales	9.7
First Industrial Acquisitions, Inc	Parcel Delivery	9.7
Surface Technologies/Henkel Corp	Industrial Landlord	9.0
Lowe's	Chemical Preparation	8.8
Great Lakes Property Group Trust (The Heights)	Warehouse Retail	8.4
Ramco Madison Center, LLC	Apartments	7.4
Sam's Real Estate/Sam's Club	Shopping Center Landlord	7.1
Commercial Steel Treating	Warehouse Retail	7.1
Michigan Department of Treasury/CO-OP Apts	Steel Treating	6.9
Costco	Apartments	6.2
Ogura Corporation	Warehouse Retail	6.0
Home Depot	Automotive Supplier	5.8
CJ Legacy, LLC	Warehouse Retail	5.5
Campbell & I4 Center, LLC	Industrial Landlord	5.3
	Shopping Center Landlord	5.0
	Total	<u><u>177.1</u></u>

The top 20 taxpayers made up 14.7 percent of the total taxable valuation citywide. The highest taxpayer (Gordon Begin Co.) amounts to only 1.7 percent of the total value.

Local Employment

Madison Heights has a strong, trained workforce. Several vocational schools in the area encourage young people to seek training in industrial-related careers. Also, within a seven-mile radius, there are some of Michigan's finest colleges and business schools.

The City's major employers include the following:

Name	Type of Business	Employees
St. John Macomb Oakland Hospital	Medical care and surgical hospital	800
United Parcel Services	Trucking and courier services	700
Henkel Surface Technologies	Chemical preparation	500
Lamphere Schools	Public School District	380
Meijer	Retail store	380
Madison Schools	Public School District	340
ADT Security Systems	Security systems services	327
CNI/UTI	Interior Automotive Manufacturing	300
Costco	Retail store	300
Gonzalez Design Group	Automotive engineering and design	300
Weldmation, Inc.	Welding apparatus	300
Infusystem	Medical equipment rental	290
Howard Finishing	Automotive metal plating/finishing	260
Home Depot	Home improvement/retail store	250
Rapid Global Business Solutions (RGBSI)	Engineering design services	250
Super Kmart	Retail store	250
McNaughton - McKay Electric Co.	Electronic apparatus and equipment	235
Target Store	Department store	221
DMC- Michigan Orthopedic Specialty Hospital	Medical care and surgical hospital	200
Hollywood Market	Grocery store	200
Modern Engineering	Automotive Engineering	200
Moosejaw Mountaineering	HQ - CallCenter/Warehouse	200
Sam's Club	Retail store	200
Triangle Electric	Electrical contractors	200
EASI Engineering (Lincoln)	Automotive Engineering	186
D-M-E Company	Special dies, tools, jigs, and fixtures	160
Kasper Machine	Machine tool company	160
Schlegal Corp	Motor Vehicles Supply	160
Valenite Corporate Headquarters	Automotive - cutting tools	160
H & L Tool Company	Automotive tools and parts manufacturer	150
Ingersoll-Rand Zimmerman	Machine tool company	150
Metzeler Automotive Profile Systems	Sealing Systems/rubber products	140
Lowe's	Home improvement	133
Lear Corporation	Automotive assembly - interiors	130
Best Buy	Electronic equipment and supplies	125
Cintas Corporation	Uniform/Linen Supplier	120
Detroit Door & Hardware	Door/frame manufacturer	120
Inducto Heat, Inc.	Heat treatment for induction industry	120
Kar Nut Products	Snack food packeting/distributor	120
Valley Automotive	Motor vehicle parts/accessories	120
Value Center Marketplace	Grocery store	120
EGT Group	Printing company	104
Hanson's Windows & Siding	Windows/siding company	100
Sika Industries	Adhesives/sealants manufacturer	100

Economic Development Initiatives

Historically, the City has made use of economic development revenue bond financing, tax abatements, infrastructure improvements, tax increment financing, site assemblage, blight removal, landscape maintenance and sign grants as local economic development initiatives.

The City's industrial building vacancy rate stands at about 14.9 percent and its commercial/office vacancy rate is 9.6 percent as of June 2008. Relative to other communities in metropolitan Detroit, the vacancy rate is very good, but our City is working to make it even better.

The Economic Development Coordinator serves within the Community Development Department, and supports the Downtown Development Authority, Brownfield Redevelopment Authority, Planning Commission, and City Council regarding economic development projects. The main priorities of this division include business retention, expansion and attraction, improving the economic base of the community, creating employment opportunities, and reducing commercial and industrial property vacancies. In addition, the Economic Development Division works closely with the Chamber of Commerce, Oakland County, the Michigan Economic Development Corporation (MEDC), other State departments and organizations, local real estate agencies, development firms, and community organizations to develop and strengthen cooperative relationships, business retention and attraction efforts, ombudsman services, and development opportunities throughout the City of Madison Heights.

Major selling points for the available industrial and commercial buildings in Madison Heights include the opportunities in size (500 to 101,000 square feet), low city and county taxation, and close proximity to major airports and freeway access.

To assist in the promotion of this business sector, five major industrial park areas were established including:

- **Stephenson Industrial Research Corridor**, Stephenson Highway from 12 Mile to 14 Mile Roads
- **Madison Industrial Research District** in the Dequindre and 14 Mile area, extending south to Whitcomb and west to John R
- **Public Service Center Industrial District** on Girard and Ajax Drive, off John R between 12 Mile and 13 Mile Roads
- **Ten Mile and John R Industrial District** running along 10 Mile from Dequindre to John R, and along John R from 10 Mile to Lincoln
- **Interchange 696 Industrial District**, bounded by Dequindre, Commerce, Progress (Interstate-696 service drive), and Lincoln

The following is a profile of these industrial parks:

	Bldgs.	Average Building Size (Square Feet)	Industrial Space Square Feet (Millions)	2008 Taxable Value (\$ Millions)
Stephenson Industrial Research Corridor	84	33,053	2.8	\$ 61.7
Madison Industrial Research District	209	23,712	5.0	117.1
Public Service Center Industrial District	34	11,403	0.4	8.8
10 Mile and John R Industrial District	80	4,746	0.4	8.4
Interchange 696 Industrial District	55	25,111	1.4	32.3
Other industrial	43	122,011	0.7	12.4
Totals and averages	505	220,036		\$ 240.7

In an effort to promote economic development in our area, Oakland County launched in 1997 “Automation Alley” with Madison Heights becoming an active member of this effort. The term “Automation Alley” has been used informally in Oakland County for some time.

“Automation” became a catchword to identify the high-tech companies gravitating to Oakland County. Since they were all located close to one of two linked interstate freeways, I-75 and I-696, the term “alley” was used to describe this high-speed, high-tech corridor. Automation Alley reflects both the technological orientation and geographic location of about 1,800 businesses in Oakland County, Michigan, and Madison Heights is at the intersection of the I-75 and I-696 Corridors.

Automation Alley is made up of the worlds most dynamic and advanced technology-focused companies. Industries range from telecommunications, computer software/hardware, and information systems to consumer products, industrial processes, automotive research and development, diversified manufacturing, and health care.

Oakland County has become an internationally recognized economic powerhouse. The Automation Alley Consortium was established to develop programs and initiatives to assist members in their efforts to attract world-class, high-technology workers and businesses.

Automation Alley's 630 progressive businesses do not restrict recruitment efforts to the local area. They compete directly on a national level with other national powerhouses such as California's Silicon Valley and Boston's Route 128 for the world's best employment prospects. By implementing a dynamic marketing strategy through Automation Alley, Oakland County has enhanced its ability to compete in the global marketplace.

Major Achievements

Recent years have not been without challenges, which will remain in the foreseeable future. Despite serious financial constraints, there were significant achievements in FY 2007-08 with more anticipated in the years ahead.

PUBLIC SAFETY

In 2008, the police department replace in-car mobile data computers and implemented a new electronic traffic violation system to upgrade technology, improve the field based reporting system and increase efficiencies with data transfer and gathering. The department also continued to prepare for the new Oakland County 800 MGHZ radio system which is scheduled for late fall of 2008.

For 2009, the Department will continue to prepare personnel for the challenges of modern day policing. By utilizing both in house and outside training sources, staff will be prepared to respond to criminal investigations, critical incidents, and homeland security concerns in this community. By providing a highly trained, well-equipped and knowledgeable workforce, we will make a difference in fighting crime and protecting our community.

The Fire Department has continued to expand its relationships with neighboring communities to provide the highest degree of safety for the citizens. In October of 2007, Madison Heights entered into an "Automatic Aid" agreement with the Ferndale and Hazel Park Fire Departments. Under this agreement, firefighters from these three departments automatically provide assistance to each other to extinguish fires. In addition, in 2008, the Fire Department joined the newly formed Oakland County Mutual Aid Association. This association provides coordinated mutual aid assistance throughout the county for fire, hazardous materials and technical emergencies.

In 2008, the Department installed new incident reporting software that will share data with the National Emergency Medical Service Information System. Gathering data from every EMS agency in the country, this system analysis which procedures, standards of care and training produce the most effective and efficient patient outcomes.

The training room in the recently constructed Fire Headquarters has proven to be a valuable asset. In addition to the regular Fire Department training that is conducted there, the facility has been used to host Homeland Security, Incident Management, and Emergency Response courses for the benefit of Fire, Police, DPS and other City personnel. CPR and First Aid classes are also provided for individuals and groups.

SERVICES

Residential road projects for 2008 were just as ambitious as they were for 2007. Road reconstruction and watermain replacement was completed on Spoon from Campbell Road to 12 Mile, Parkdale from Campbell to Mark, Millard from Campbell to Edgeworth, and portions of Edgeworth south of Millard.

Road reconstruction was completed on Girard Street from I-75 to Palmer, Northeastern from Barrington to Girard, and Barrington from Woodside to Northeastern. Sectional concrete street repair was completed on Sherry Street from Parkdale to 12 Mile. Year 6 Sidewalk Repair and Gap Program was completed in an area bounded by Dequindre, Twelve Mile, I-75 and Ajax/Moulin, as was the Red Oaks Bike/Walking Path from Delton to Groveland.

Major roads received needed attention in 2008. The northbound lanes of Stephenson Highway were resurfaced from 12 Mile to 13 Mile and the southbound lanes of Stephenson Highway were resurfaced from 14 Mile to Girard. Commercial and industrial road reconstruction was done on North Avis, East Avis, Mandoline from Edward to North Avis, and Edward from 14 Mile to Mandoline.

In an effort to stave off the continued deterioration of westbound 11 Mile, spray patching was completed from John R west to the Service Drive. This temporary fix should provide improved drivability until funding can be secured for a more permanent fix.

Although 2008 saw an extremely rough winter, City streets were kept safe and passable thanks to the introduction of salt brine to the snow-fighting arsenal. This simple solution of salt and water enables salt to break down snow and ice quicker, while reducing the amount of salt required to do the job.

DEVELOPMENT

In 2008, the City was pleased to see the completion of numerous private developments, including Harvard Village (single family homes), WOW, Inc., Madison Commons, Jimmy Johns, Modern Skate & Surf, Costco Expansion, Apex Karting and Conference Center and Kaewood Expansion.

PARKS AND LIBRARY

2008 saw a new playscape installed at Huffman Park, which the neighborhood is putting to good use. The Habitat Trail in Simonds Woods was repaired and an asphalt path from Rose Street to the Simonds Woods' gate was installed.

The Farnum Parking lot at Rosie's Park was expanded, and the entire lot was repaved. Rosie's Park also received a new safer swing set and slide. Numerous trees were replaced due to Emerald Ash Borer in City parks thanks to funds from a DTE Energy planting grant.

2008 saw continued use of the improved Madison Heights Public Library, which reopened to the public following extensive renovations in July 2007. The Friends of the Library held a successful annual used book sale in early March, and returned to their traditional fall dates in October.

Youth staff introduced lap sit story times for youth six months to two years of age, and the implementation of collection agency software was begun to work together with the security gates to prevent material loss. The library is also a participant in the Macy's sponsored Museum Adventure Pass Program that allows residents to borrow passes for two or four to a wide variety of area museums.

Departmental Services and Accomplishments

Under the present City Charter adopted in 1955, Madison Heights is governed by the Council Manager form of government. Madison Heights provides a full range of services to its residents through its District Court, city clerk, city assessor, human resources, finance, custodial and building maintenance, police, fire, streets, solid waste, senior citizens, recreation, nature center, parks, library, community development, housing commission (community improvement), general administration, information technology, water and sewer, and motor pool departments, divisions, and offices.

District Court

The 43rd District Court, Madison Heights Division, was established by the State of Michigan to render judicial decisions for the citizens of the City. The State is divided into judicial districts, each of which is an administrative unit subject to the control of the Supreme Court of the State of Michigan.

Jurisdiction of the District Court includes all felonies, misdemeanors, civil infractions, and civil and small claim cases. The District Court Judge, who is an employee of the State of Michigan and elected by local voters, supervises the District Court employees.

City Clerk's Office

The City Clerk's Office is responsible for the official records of the City. The department's employees are represented at all City Council, Zoning Board of Appeals, Civil Service Commission, Brownfield Redevelopment Authority, Downtown Development Authority, City School Liaison Committee, Charter Amendment Committee, and Elected Officials Compensation Committee meetings. Staff word processes the agendas for the meetings and prepares notices and publications. Meeting actions are recorded in the form of minutes, indices, adjustment of directories, and updates to the Code of Ordinances. Staff also prepares ceremonial certificates, commendations and testimonials.

This office is also responsible for issuance of animal licenses and the coordination of temporary, seasonal, and regular retail business licenses, right-of-way and door-to-door solicitation permits. Madison Heights residents' vital statistics, such as birth and death certificates, are kept on file for use by individuals and the State of Michigan. The City Clerk's office also maintains a medical loan closet to provide residents use of wheelchairs, crutches, canes and walkers.

The City Clerk administers the Election Division. This division is responsible for voter registration and providing lists of registered voters upon request. Other duties include conducting federal, state, county, and city and school elections in accordance with the Federal and State election laws, while striving to protect the rights of the voters.

City Assessor's Office

The City Assessor's Office is responsible for the appraisal of all real estate and personal property for property tax purposes. There are approximately 11,500 real property descriptions and 1,750 personal property accounts contained in the City's mass appraisal files. The Assessing Department operates under the provisions of the General Property Tax Act of 1893, as amended, and applicable local Charter Provisions. In addition, the department maintains and monitors the "principal residence" status of all property throughout the City as well as tracking property transfers.

The department is responsible for development of Special Assessment District rolls used to fund many infrastructure improvements. The Assessing Department also defends all assessments before the Michigan Tax Tribunal and supports some economic development programs.

Human Resources Department

The Human Resources Department is responsible for the following functions: coordination of employee recruitment and selection, training, counseling, medical evaluation, discipline, transfer, grievance administration, staffing analysis and planning, labor relations, labor contract negotiations, health and safety, return-to-work program, compensation administration, position control, pay and classification review, wellness, and other matters. In addition, the department researches and formulates policy as directed by the City Manager or initiated by the department.

Finance Department

The Finance Department prepares and maintains the City's financial statements in compliance with the requirements of the Governmental Accounting Standards Board. The Finance Department is responsible for all accounting, pension administration, and treasury functions. In addition the department also assists in budget development, implementation, maintenance, and control.

Department of Public Services - Custodial and Building Maintenance

The Custodial and Building Maintenance Division is responsible for maintaining City buildings, which include preventative maintenance, repairs and janitorial services. Custodial services are provided through outside contractors at the Library, District Court, Police Station, Senior Citizen Center, Nature Center, City Hall and the Department of Public Services buildings.

Police Department

The Police Department strives to preserve and protect life and property in Madison Heights, through its five operating bureaus. The majority of the department's staffing, equipment and financial resources are allocated to the Road Patrol Bureau. The Bureau's role is to establish a communication network through community policing, suppress crime, maintain order, and respond to emergencies and calls for assistance.

The Investigative Bureau includes trained professional investigators who are responsible for researching, solving and successful prosecution of crimes.

The Crime Prevention Bureau works with businesses and homeowners to increase their awareness of the importance of security.

The Accident Investigation Team's officers, through training in traffic and motor carrier enforcement, work to reduce traffic accidents by determining causes and making recommendations for changes in traffic regulations and enforcing overweight and safe vehicle statutes to protect the City's roadways.

The Police Department also maintains an educational program in many of these areas through contacts with various citizens' groups and speaking engagements.

Finally, the Auxiliary Services Unit is responsible for helping citizens who wish to become more involved in and aware of methods of crime prevention in their community. Auxiliary Services consists primarily of volunteers supervised by a police sergeant. Volunteer groups include Police Reserves, Crisis Response Team, Citizens Observation and Surveillance Team and the Police Explorers, who are young people who receive training for law enforcement careers.

Fire Department

The Fire Department is responsible for the protection of life and property from the ravages of fire. The Fire Department responds to residential, commercial and industrial fires with specialized equipment designed to meet the needs of the particular fire. In addition, the department is able to respond to hazardous materials incidents, confined space rescue and trench rescue.

The Fire Department provides advance life support emergency medical services in cases of sudden illness or injury. Licensed paramedics, working under the direction of a base hospital physician, provide quality pre-hospital emergency care with transportation to six area hospitals.

The Fire Prevention Division is involved in the enforcement of State laws and City ordinances that relate to fire protection and prevention. In addition, the department inspects commercial and industrial buildings, and multiple-unit dwellings for fire code violations. The Division also conducts fire investigations and aids in the fire prevention effort through the development and presentation of public fire education programs.

Department of Public Services - Streets Division

The Department of Public Services - Streets Division is responsible for maintaining the 106 miles of streets within the City. The Streets Division is responsible for handling all street cleaning, snow and ice removal, tree trimming, street signs and open drain repair. The Streets Division is upgrading street signs with a high density facing for a safer, more visible sign. The Streets Division will be performing both targeted and generalized concrete repair as part of the Neighborhood Road Improvement Program that was initiated in 1997.

Department of Public Services - Solid Waste Division

The Solid Waste Division is responsible for the collection of refuse and recyclables, brush chipping, street sweeping, leaf pickup, litter disposal, park cleanup and catch basin cleanout. The City's newsletter and website informs citizens of refuse and recycling rules and schedules. The City has established a mandatory recycling program. Recycled materials include metals, telephone books, magazines, paper, plastics, glass, tin, Christmas trees, batteries, grass clippings and leaves. Educational seminars for recycling and composting are conducted for schools and businesses.

Department of Public Services - Senior Citizens Division

The Senior Citizens Division is responsible for hosting a wide range of programs for the City's senior citizens. The Senior Center provides a place for seniors to enjoy their leisure time participating in educational and recreational programs. Transportation is provided through the center for recreation, personal business appointments and other activities. A daily lunch program, a home chore program (grass mowing and snow shoveling for financially needy seniors), and human services information and referral are also available.

Department of Public Services - Recreation Division

The Recreation Division is responsible for conducting the City's leisure and recreational programs. The Recreation Division provides instructional programs in such areas as dance, tennis, swimming and art. The "Festivals in the Park" series continues with great success. Team sports such as basketball, softball and volleyball are also offered. The Recreation Division staff processes all registration, preparation, and distribution of flyers, evaluation and selection of programs and instructional personnel, and coordination of volunteer coaches.

Department of Public Services - Nature Center

The Nature Center at Suarez Woods opened in October 1996 and operates with one full-time, one part-time naturalist and many volunteers. The Center is open six days a week (approximately 40 hours) and offers a variety of seasonal displays, programs, walking tours and a small gift store. The Nature Center's goal is to provide visitors a better appreciation of nature. In doing so, interactive displays are changed seasonally. Live animals, taxidermy mounts, artwork and special events are all a part of the experience. In addition to the building, the 36 acres of natural preservation located in the middle of a developed community provides a refreshing retreat from our busy workday surroundings.

Department of Public Services - Parks Division

The Parks Division is responsible for the maintenance of all City parks. In addition, the Parks Division performs landscaping duties, as well as sidewalk and parking lot maintenance for all City buildings. The Parks Division is also responsible for mowing, responding to tree service calls, removal of unsafe or dead trees and oversight of the mowing contractor. All athletic field sites are prepared for use and maintained by the Parks Division.

Library Department

The Library Department is a multifaceted service agency involved in meeting the community's needs for information in a variety of formats. Demand for educational, recreational, and cultural materials is met with a constantly updated collection of books, periodicals, pamphlets, videos, compact discs and books on tape.

The Library Department's ability to provide information is further enhanced by its membership in The Library Network (TLN). This membership allows for the electronic inter-loan of items from other TLN members. These items are then delivered to Madison Heights for patron pickup.

A myriad of additional services is offered by the Library, such as free home delivery of library materials to the physically challenged, temporarily homebound and senior citizens. In an effort to better serve the City's significant and varied immigrant population, the Library offers English as a Second Language (ESL) collection consisting of books, audio cassettes and videos designed to teach English. Personal computers, with Internet access, are available for use by patrons. A liaison is maintained with the City's schools and classroom visits are arranged. Art exhibits are scheduled regularly and speakers, films, book reviews and children's programming are offered year round.

Community Development Department

The Community Development Department consists of seven separate functions: Economic Development; Geographic Information Systems (GIS); Code Enforcement; Building; Planning and Zoning; Engineering; and Housing and Grant Administration, all personnel strive toward developing and enhancing the quality of life in Madison Heights.

The Building Division performs inspections of new buildings, inspections of commercial buildings for business licenses and inspections for landlord licenses. The Planning and Zoning Division provides recommendations on all matters coming before the Planning Commission, Zoning Board of Appeals and the Downtown Development Authority. Staff also reviews proposed development to ensure compliance with the City's Zoning Ordinances and Master Plan. The Engineering Division administers, designs, and inspects City utility and road projects. It also provides engineering inspection for all private development. The GIS Division provides comprehensive mapping services to all City departments and the general public. Code Enforcement conducts inspections to determine compliance with various City codes.

The Economic Development Division provides business retention, expansion and attraction resources, as well as direct support to the Downtown Development Authority and the Brownfield Redevelopment Authority.

Community Development Department - Community Improvement Division

The Community Improvement Division is a federally funded division of the Community Development Department. The Community Improvement Division is charged with the administration of the City's Community Development Block Grant and Housing Commission Funds. Block grant funds are used for such things as the Home Chore Program, code enforcement, minor home repair, barrier-free improvements and other similar projects that benefit low- and moderate-income residents. In addition, these funds provide assistance to low-income families in securing low interest and/or deferred home improvement loans. The City's Housing Commission funds are used to subsidize the rent for over 250 low-income tenants.

General Administration Department

The General Administration Department is responsible for conducting many of the City's centralized administrative functions. Examples of key roles include: purchasing; telephone administration; Internet website support; City calendar and annual report; coordinating citizens' requests for services; cable television production and regulation; and special projects as assigned.

Information Technology Office

The Information Technology Office is responsible for supporting the City's Wide Area Network (WAN) and computer-related functions. Examples of key services provided include installation and support of microcomputers, technical support liaison for all hardware and software, water and tax bill production and assistance in setting the technological direction for the City.

Department of Public Services - Water and Sewer Division

The Water and Sewer Division is responsible for providing water distribution and sewage collection to the City's citizens and businesses. The process begins with the purchase of water from the Detroit Water and Sewerage Department. The Water and Sewer Division handles the installation, repair and reading of all water meters. The Water and Sewer Division does all repair work on water and sewer mains, gate wells, maintenance and catch basin structures; all cleaning of sewer mains, catch basins, gate wells and culverts; and all other related services. The Water and Sewer Division handles all repair work, including pavement and landscape repairs arising from water main breaks and/or sewer trench settlement. The process ends with the City paying the Oakland County Drain Commission for the treatment of sewage that enters its facilities.

Department of Public Services - Motor Pool Division

The Motor Pool Division is responsible for maintaining all City vehicles and related equipment. The Motor Pool Division keeps individual records on each vehicle and piece of equipment to help determine whether the cost of repair is justified as the need arises. The equipment is also inspected for safety problems, thereby protecting the employees and the general public. The Motor Pool Division is also responsible for keeping adequate vehicle and equipment parts in stock and updated. The Motor Pool Division also orders gasoline and diesel fuel, and oversees the work done on all emergency backup generators.

Financial Information

Internal Control

The accounting principles and procedures currently in use by the City have been designed to enhance and coordinate internal accounting controls as well as to encourage adherence to prescribed managerial policies. The manner in which these controls are implemented reflects procedures designed to help ensure the safeguarding of assets and the reliability of accounting data to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that errors will be detected and prevented, if and when they occur. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Single Audit

As a recipient of federal and state financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management.

Budgeting Controls

The annual budget provides a basis of control over financial operations. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the approved budget. Activities of the General Fund, Special Revenue Funds, Capital Projects Fund, and the Debt Service Fund are included in the annual appropriated budget. The level of budgetary control adopted by the City (that is, the level at which expenditures cannot legally exceed the appropriated amount) is based on total expenditures by fund, except for the General Fund, for which it adopts budgeted expenditures by general government, public safety, community development and services, and culture and recreation, which is in accordance with the State's legal requirements. These controls have assisted in the sound financial planning of the past by improving budgetary standards such as long-range programs for cyclical road, sidewalk, water main, vehicle and equipment replacement. The overall budget strategy is to address the current program obligations as efficiently as possible while also meeting the challenges of future needs for infrastructure improvements.

Other Information

Independent Audit

The State statutes and City Charter require an annual audit of all accounts of the City by certified public accountants selected by the City Council. This requirement has been fulfilled and the report of Plante & Moran, PLLC, certified public accountants, is included herein. The auditor's report on the general-purpose financial statements is included in the financial section of this report. The auditor's reports related specifically to the single audit are reported under separate cover.

Certification

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Madison Heights for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

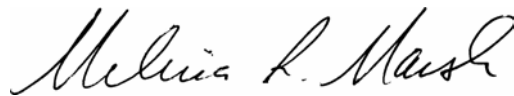
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such Comprehensive Annual Financial Report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Madison Heights has received a Certificate of Achievement annually since the fiscal year ended June 30, 1992. City management believes our current report continues to conform to the Certificate of Achievement Program requirements and is submitting it to GFOA to determine its eligibility for a certificate.

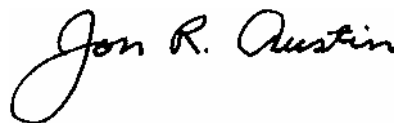
In addition, the GFOA has granted the City an award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 2007. The City's report titled "Citizens Financial Report" provides a user-friendly overview of the City's financial performance and progress during the past fiscal year. The GFOA independent reviewer judged the document exceeded standards on its creativity, presentation, understandability and reader appeal.

Acknowledgments

The timely preparation of this report could not have been accomplished without the efficient and dedicated services of the staff of the Finance Department and the City Manager's Office. We express our appreciation to all members of the departments who assisted and contributed to its preparation. We also thank the City Council for its interest and support in conducting the financial operations of the City in a responsible and progressive manner.



Melissa R. Marsh
Director of Administrative Services
Acting Finance Director/Treasurer



Jon R. Austin
City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Madison Heights
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



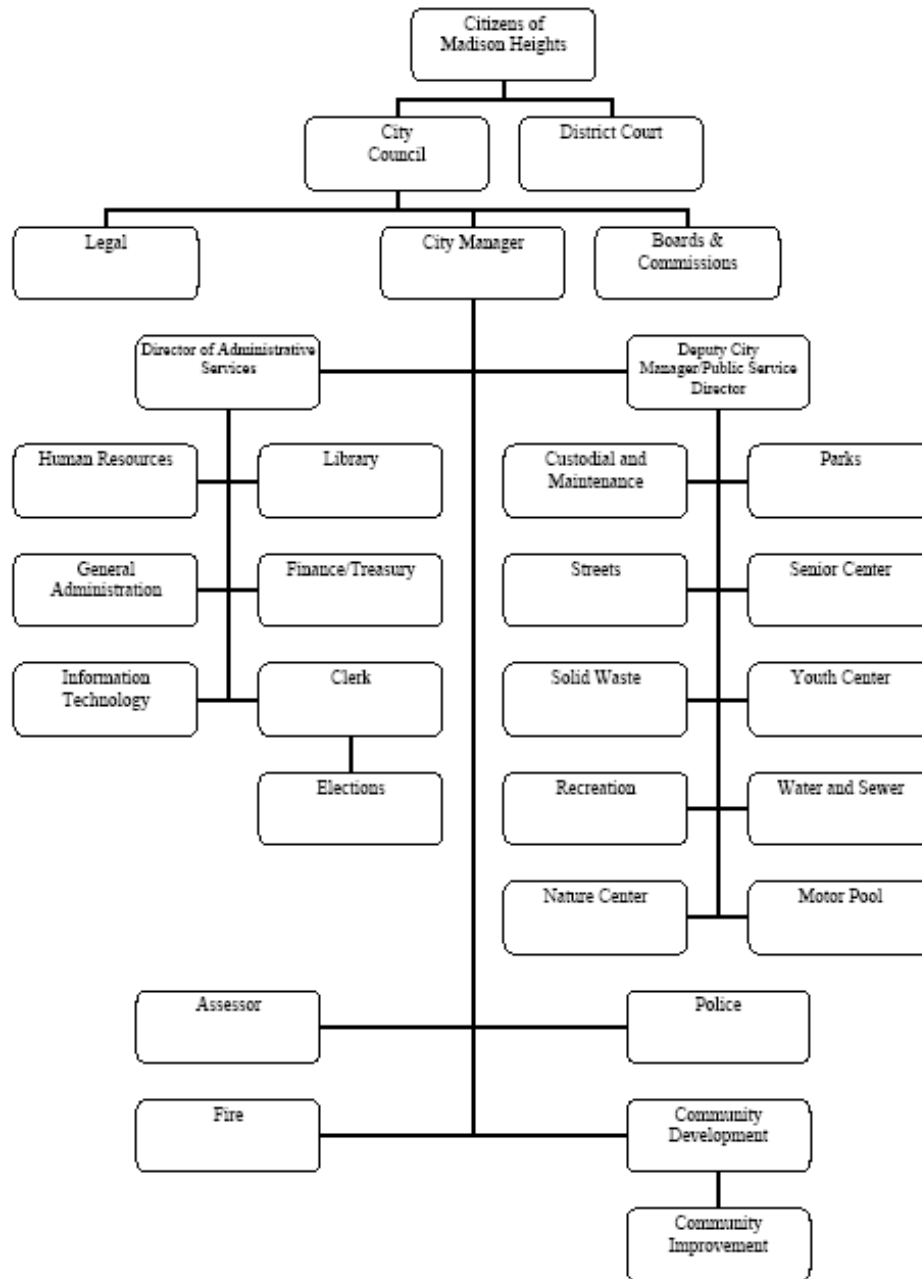
Cherie S. Cox

President

Jeffrey R. Enen

Executive Director

City of Madison Heights Organizational Chart



City of Madison Heights, Michigan

List of Principal Officials June 30, 2008

Title	Name
Mayor	Edward C. Swanson
Mayor Pro Tem	Margene A. Scott
Council Member	Richard L. Clark
Council Member	Robert J. Corbett
Council Member	Brian C. Hartwell
Council Member	Gary R. McGillivray
Council Member	Marilyn R. Russell
City Manager	Jon R. Austin
Deputy City Manager	Benjamin I. Myers
Director of Administrative Services	Melissa R. Marsh
Departmental Administrators:	
City Assessor	Dwayne G. McLachlan
City Clerk	Marilyn J. Hadley
Community Development	James T. Schafer
Finance Director/Treasurer	Melissa R. Marsh
Fire	Kevin M. Scheid
Library	Roslyn F. Yerman
Police	Kevin M. Sagan



Plante & Moran, PLLC
27400 Northwestern Highway,
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Madison Heights' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the major fund budgetary comparison schedules as identified in the table of contents are not required parts of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madison Heights' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2008 on our consideration of the City of Madison Heights' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moren, PLLC

November 13, 2008

City of Madison Heights, Michigan

Management's Discussion and Analysis

This discussion and analysis provides a narrative overview of the financial activities of the City of Madison Heights (the "City") for fiscal year ended June 30, 2008 (fiscal year 2008). This analysis provides an introduction and overview to readers to assist in interpreting and analyzing the City's basic financial statements and financial activities based upon currently known facts, decisions, and conditions. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal at the front of this report and the City's financial statements, which follow this section.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2008:

- The City's General Fund has decreased fund balance at June 30, 2008 by \$585,483 as a result of a planned increased investment in capital improvement and lower than anticipated revenues. As outlined in the notes to the financial statements, the General Fund's fund balance is designated to meet current and long-term liabilities of the City such as vested employee benefits and subsequent year's expenditures. In the past, the City has been able to designate fund balance for retiree healthcare benefits; however, at June 30, 2008, funds are no longer available for this designation.
- The City's Local Street Fund has increased fund balance at June 30, 2008 by \$55,944. This fund is over 100 percent reserved for the City's Proposal R long-term capital improvement projects, leaving the City underfunded for non-R Local Streets Projects and expenses by \$119,186 at June 30, 2008.
- The City's total net assets were \$58.6 million for governmental activities at June 30, 2008. This reflects an increase in governmental activities' net assets of \$2.8 million or 5.1 percent from fiscal year 2007. Of this amount, \$4.5 million is considered unrestricted, which means the City may use or designate this amount to meet ongoing and future obligations.
- During the fiscal year, the City's governmental activities received \$35.1 million in program and general revenues, which represents an increase of \$1.4 million from 2007.
- Total governmental activity program expenses for the year were \$32.2 million or an increase of \$1.0 million or 3.1 percent. This increase resulted from increased capital asset purchases and infrastructure improvements, solid waste charges, and general wage increases.
- The total net assets for the business-type activities are \$20.3 million as of June 30, 2008. This is an increase of approximately \$364,000 or 1.8 percent over June 30, 2007. Of this amount, \$1.1 million is unrestricted and will be used to meet future obligations of the business-type activity. Unrestricted net assets are down from \$2.7 million at June 30, 2007.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

- The City has one business-type activity, the Water and Sewer Fund. Revenues are generated through charges to customers for commercial and residential water and sewer usage. Total revenues received were \$9.0 million, resulting in an increase in net assets of \$364,000 for fiscal year 2008.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Madison Heights on a government-wide basis. They are designed to present a longer-term view of the City's finances. The fund-based financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. The fund-based financial statements also report the City's operations in more detail than the government-wide financial statements.

The City of Madison Heights as a Whole

The net assets of the City represent the difference between the City's total assets and total liabilities. Changes in the net assets can be a useful tool for governments to measure their performance over time. At the end of fiscal year 2008, the City's total net assets increased 4.2 percent from a year ago, increasing from \$75.8 million to \$79.0 million. At June 30, 2008, these net assets are categorized as those which are invested in capital assets net of related debt (77.1 percent or \$60.9 million), restricted by external requirements (15.8 percent or \$12.5 million), and those which are unrestricted (7.1 percent or \$5.6 million).

The City's net assets of \$60.9 million that are invested in capital assets net of related debt reflect its investment in capital assets such as land and buildings, less any related debt used to acquire those assets that is still outstanding. Since the City uses these assets to provide services to the citizens, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other revenue sources, since the capital assets themselves cannot be liquidated to satisfy these liabilities.

The City's restricted net assets of approximately \$12.5 million are subject to bond covenant restrictions or other legal or regulatory requirements. The remaining portion of the City's net assets of approximately \$5.6 million is unrestricted, but designated to meet ongoing obligations. It is important to note that unrestricted net assets are down from 2007 by approximately \$1.0 million.

A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$2.8 million in net assets during fiscal year 2008. This increase was substantially due to the City's investment in infrastructure improvement projects and capital purchases.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Relative to changes in fund balance for governmental activities, the General Fund had a decrease of approximately \$585,000 attributable to court revenue, interest income, and rescue fees being lower than expected.

The Major Streets Fund had an increase in fund balance of approximately \$127,000. This increase occurred despite a decrease in gas and weight tax revenue sharing of \$27,821, or 2.2 percent, and interest earnings of \$57,094, or 67.6 percent. Expenses were also up due to an increase in road maintenance of \$56,300, or 37.8 percent and a general wage increase for department employees.

The Local Streets Fund reflects an increase of approximately \$56,000 in fund balance that is due to projects that were anticipated to be completed in 2008 but have been carried forward to 2009. The Local Streets Fund also has a deficit balance of \$119,186 in unrestricted funds which is used for non-R project and general expenses. This deficit is due to lower than projected revenues, including a decrease in gas and weight tax revenue sharing of \$10,316, of 2.2 percent and interest earnings which were down \$91,786, or 27.3 percent. Expenses were also significantly higher than expected. The harsh winter of 2007-2008 caused wages and benefits for overtime for winter maintenance to increase by \$15,813.

The City's Revolving Fund, which is specific to capital improvement projects, experienced a reduction in fund balance of approximately \$227,000. This was a result of an increase in costs for year four of the sidewalk program.

The following table shows a comparison of net assets (in thousands of dollars) as of June 30, 2008 and 2007:

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2007-2008	2006-2007	2007-2008	2006-2007	2007-2008	2006-2007
Assets						
Current assets	\$ 18,679	\$ 18,145	\$ 2,230	\$ 3,873	\$ 20,909	\$ 22,018
Noncurrent assets:						
Capital assets	47,575	46,219	28,772	26,988	76,347	73,207
Other	2,339	1,851	916	1,254	3,255	3,105
Total assets	68,593	66,215	31,918	32,115	100,511	98,330
Liabilities						
Current liabilities	2,534	3,286	1,666	1,739	4,200	5,025
Long-term liabilities	7,426	7,135	9,925	10,413	17,351	17,548
Total liabilities	9,960	10,421	11,591	12,152	21,551	22,573
Net Assets						
Invested in capital assets - Net of related debt	42,608	40,995	18,283	16,015	60,891	57,010
Restricted	11,511	10,959	916	1,203	12,427	12,162
Unrestricted	4,514	3,840	1,128	2,745	5,642	6,585
Total net assets	<u>\$ 58,633</u>	<u>\$ 55,794</u>	<u>\$ 20,327</u>	<u>\$ 19,963</u>	<u>\$ 78,960</u>	<u>\$ 75,757</u>

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

As shown in the following table (in thousands of dollars), the City's revenues for its government activities increased by approximately \$1.3 million or 3.9 percent from the prior fiscal year. This increase is a reflection of an increase in operating grants, capital grants, contributions, and property tax revenues. Program expenses increased 3.1 percent from the previous fiscal year. This increase resulted from increases in infrastructure improvements, capital outlay purchases, general wage increases, and the pre-funding for future retiree healthcare benefits.

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2007-2008	2006-2007	2007-2008	2006-2007	2007-2008	2006-2007
Revenue						
Program revenue:						
Charges for services	\$ 3,105	\$ 3,448	\$ 8,919	\$ 8,519	\$ 12,024	\$ 11,967
Operating grants	3,214	2,280	-	-	3,214	2,280
Capital grants and contributions	1,073	506	7	5	1,080	511
General revenues:						
Property taxes	22,826	21,787	-	-	22,826	21,787
State-shared revenues	3,232	3,841	-	-	3,232	3,841
Unrestricted investment earnings	979	1,276	82	154	1,061	1,430
Franchise fees	361	335	-	-	361	335
Other	273	275	22	31	295	306
Total revenue	35,063	33,748	9,030	8,709	44,093	42,457
Program Expenses						
General government	5,091	5,370	-	-	5,091	5,370
Public safety	16,847	16,294	-	-	16,847	16,294
Public works	4,092	3,652	-	-	4,092	3,652
Solid waste	2,608	2,587	-	-	2,608	2,587
Community development	1,233	1,159	-	-	1,233	1,159
Recreation	2,174	2,001	-	-	2,174	2,001
Interest on long-term debt	179	184	-	-	179	184
Water and sewer	-	-	8,666	7,746	8,666	7,746
Total program expenses	32,224	31,247	8,666	7,746	40,890	38,993
Increase in Net Assets	\$ 2,839	\$ 2,501	\$ 364	\$ 963	\$ 3,203	\$ 3,464

During the year, the City continued to meet the actuarial required contributions for the defined benefit pension systems. This is important for the City because future taxpayers should not be required to fund pension benefit payments that were earned now.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water, which is purchased from the City of Detroit Water System, to all of its residents and businesses. The water rate charged by the Detroit Water and Sewerage Department for water for fiscal year 2007-2008 increased by approximately 9.2 percent. The City provides sewage treatment to all residential and businesses using the Southeast Oakland County Sewage Disposal System. There was a rate increase for sewage treatment of 8.7 percent. Additionally, the City incurred a substantial increase of 14.3 percent for flat storm water charges attributable to the George Kuhn Drain. Combined with all charges, the average water and sewer bill for a City resident increased by 4.7 percent in fiscal year 2007-2008. The Water and Sewer Fund had a \$363,722 increase in its net assets; this is due to revenues being collected in fiscal year 2007-2008 for major capital outlay projects to be completed in fiscal year 2008-2009. Revenues from user charges increased 4.7 percent, or \$400,197, as a result of increased rates. Operating expenses increased by 12.0 percent, or \$924,690, due to the increase in the cost of water from the Detroit Water and Sewerage Department, increased sewage disposal from the Oakland County Drain Commission, and a one-time expense adjustment of approximately \$329,000 for two capital assets that were included in both the general building assets and as separate line items.

General Fund Budgetary Highlights

During the fiscal year, the City administration and City Council monitor and amend the original budget adopted by the City due to changes in the projected revenues and unanticipated events that occur throughout the year.

The City received 11.75 percent less in revenue sharing as compared to the 2007 funding levels. This was a direct result of an extra payment being recorded in fiscal year 2007 due to an accounting shift in recording revenue sharing from the State of Michigan. Under generally accepted accounting principles, revenue received within 60 days of year end is recorded in the prior fiscal year. During fiscal year 2006-2007, the City elected to begin receiving State of Michigan deposits and/or payments through an electronic transaction which allowed the City to receive the fund much faster than with a paper check. In prior years, the City would have received this revenue-sharing payment subsequent to the 60-day period and therefore recorded it in the next fiscal year. On August 31, 2007, a payment in the amount of \$555,222 was received, which was recorded as revenue in fiscal year 2007.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

There was a moderate increase in property tax revenues of 4.8 percent that was related to increases in real taxable property values. There was a decrease in investment income of \$174,828, or 23.8 percent, as interest rates decreased from over 5.25 percent to less than 3 percent. Court revenue dropped significantly, decreasing 15.8 percent, or \$270,602. Ambulance revenues also suffered a decrease of 7.4 percent, or \$28,347. To combat the negative pressure on revenues and with the continued uncertainty of state funding levels, the City continues a hiring freeze analysis and other measures that were initiated by the administration several years ago that continue to this day. Department heads were asked to cut expenses and to continue to explore innovative ways to add efficiencies to their operations.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets, net of related debt, for its governmental and business-type activities as of June 30, 2008 amounts to \$60,890,706, net of accumulated depreciation. This is a net increase (additions less debt retirement and depreciation) of \$3,881,187 or 6.8 percent for last fiscal year. The following summarizes the City's capital assets, net of depreciation, as of June 30, 2008 and 2007:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 2,190,058	\$ 2,190,058	\$ 164,413	\$ 164,413	\$ 2,354,471	\$ 2,354,471
Infrastructure	28,802,794	26,810,032	23,254,203	11,550,930	52,056,997	38,360,962
Buildings and improvements	12,300,707	12,453,402	4,399,119	3,748,639	16,699,826	16,202,041
Land improvements	1,202,793	1,211,732	-	-	1,202,793	1,211,732
Construction in progress	155,703	-	642,143	11,135,810	797,846	11,135,810
Other assets	1,026,564	1,121,550	312,002	388,311	1,338,566	1,509,861
Vehicles	1,896,034	2,432,869	-	-	1,896,034	2,432,869
Total	<u>\$ 47,574,653</u>	<u>\$ 46,219,643</u>	<u>\$ 28,771,880</u>	<u>\$ 26,988,103</u>	<u>\$ 76,346,533</u>	<u>\$ 73,207,746</u>

Major capital asset additions during the fiscal year included the following:

- The purchase of a code enforcement vehicle, a fire chief's vehicle, a parks pickup, a parks mower, a brine manufacturing system, and two snow removal deicing spray tanks
- A total of \$104,895 was spent for park improvements, including Huffman Playground equipment
- Renovations to City Hall, including new exterior doors off the Council Chambers and a new portable emergency generator and upgraded electrical system to accommodate a generator transfer switch
- The senior center received new handicap accessible doors for the west entrance

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

- Year five of the sidewalk program, which included an area bounded by Twelve Mile Road, John R., Eleven Mile Road, and I-75 and a several individual parcels within the City
- Several road construction projects, including reconstruction of Stephenson Highway turnarounds, Progress and Heights Phase II restructuring, Stephenson Highway northbound resurfacing from Twelve Mile to Thirteen Mile, and a joint rehabilitation on Eleven Mile from John R to Dequindre. The Ten-Year Neighborhood Road Improvement Program included Parker District and the annual joint/crack sealing program including the neighborhoods south of Thirteen Mile and north of Moulin from John R to Dequindre.

Note 4 of the financial statements contain additional information regarding capital assets including the depreciation expense charged during the year.

Long-term Debt

At June 30, 2008, the City had \$15,504,282 in outstanding debt. Of this amount, \$5,015,000 related to General Obligation Bonds for the fire station construction while the remaining \$10,489,282 related to the City's portion of the George W. Kuhn (GWK) Drain bonds.

The City's bonded debt position as June 30, 2008 and 2007 is summarized below and is more fully explained in Note 6 - Long-term Debt:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation	\$ 5,015,000	\$ 5,225,000	\$ 10,489,282	\$ 10,973,227	\$ 15,504,282	\$ 16,198,227

The decrease in the City's debt in fiscal year 2008 is due primarily to making scheduled principal payments for the applicable debt.

The City's latest government bond rating occurred in June 2003 when Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (S&P) assigned their municipal bond ratings of "Aaa" and "AAA," respectively, to the issue of 2003 Fire Station Bonds. These ratings were given with the understanding that upon delivery of the bonds, a policy insuring the payment when due of the principal and interest on the bonds will be issued by MBIA Insurance Corporation and paid for by the City. Moody's and S&P have also assigned their outstanding underlying ratings of "A1" and "AA-," respectively, to the bonds.

Water and sewer debt is related to the GWK Drain. These bonds are issued through the Oakland County Drain Commissioner's Office and applied on a percentage basis to each participating community. The City of Madison Heights is responsible for approximately 10.5 percent of each issue.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The condition of the State and local economies were key factors considered in the preparation of the City's fiscal year 2008-2009 budget. Below is a synopsis of significant issues that were weighed in the budget process:

- Increases in healthcare costs
- Funding for the liability related to future retiree healthcare expenditures
- Slow recovery of Michigan economy, high unemployment and foreclosure rates, and decreasing assessed values
- State of Michigan policy decision to shift revenue-sharing funding away from municipalities

Request for Information

This financial report is designed to give our citizens, taxpayers, customers, and investors with a general overview of the City's finances. Questions concerning any information in this report may be sent to the finance director/treasurer, City of Madison Heights, 300 West Thirteen Mile Road, Madison Heights, MI 48071 or submitted through the City's website at www.madison-heights.org

City of Madison Heights, Michigan

Statement of Net Assets June 30, 2008

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
Assets				
Cash and investments (Note 2)	\$ 17,039,454	\$ 178,469	\$ 17,217,923	\$ 1,181,819
Special assessments receivable - Current	52,300	-	52,300	-
Accounts receivable (Note 3)	450,176	2,017,705	2,467,881	-
Due from other governmental units (Note 3)	907,175	-	907,175	-
Prepaid items and deposits	230,446	-	230,446	-
Noncurrent assets:				
Special assessments receivable - Long term	2,290,624	-	2,290,624	-
Inventories	-	34,043	34,043	-
Restricted assets (Note 7)	48,455	916,347	964,802	-
Capital assets (Note 4):				
Depreciable	45,228,892	27,965,324	73,194,216	105,140
Nondepreciable	2,345,761	806,556	3,152,317	-
Total assets	68,593,283	31,918,444	100,511,727	1,286,959
Liabilities				
Accounts payable	1,181,714	647,131	1,828,845	2,944
Accrued and other liabilities	907,133	291,736	1,198,869	3,967
Due to other governmental units	653	-	653	-
Due to police and fire retirement system	444,372	-	444,372	-
Deposits	-	163,211	163,211	27,654
Noncurrent liabilities (Note 6):				
Compensated absences and other claims:				
Due within one year	676,547	-	676,547	-
Due in more than one year	1,734,860	-	1,734,860	-
Long-term debt:				
Due within one year	220,000	564,149	784,149	-
Due in more than one year	4,795,000	9,925,133	14,720,133	-
Total liabilities	9,960,279	11,591,360	21,551,639	34,565
Net Assets				
Invested in capital assets - Net of related debt	42,608,108	18,282,598	60,890,706	105,140
Restricted:				
Vehicle purchases	135,428	-	135,428	-
Major and Local Streets Funds - Construction and operations	8,116,014	-	8,116,014	-
Revolving Fund - Capital projects	2,982,087	-	2,982,087	-
Forfeiture Fund - Drug enforcement	227,667	-	227,667	-
Debt administration	49,265	-	49,265	-
Water and Sewer Fund - Construction	-	916,347	916,347	-
Housing Commission Fund	-	-	-	671,750
Unrestricted	4,514,435	1,128,139	5,642,574	475,504
Total net assets	<u>\$ 58,633,004</u>	<u>\$ 20,327,084</u>	<u>\$ 78,960,088</u>	<u>\$ 1,252,394</u>

City of Madison Heights, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 5,091,442	\$ 1,620,749	\$ -	\$ -
Public safety	16,846,842	447,716	9,041	75,361
Public works	4,091,642	79,468	1,800,757	997,544
Solid waste and recycling	2,608,427	14,704	-	-
Community and economic development	1,233,027	653,165	461,672	-
Recreation and culture	2,173,594	289,021	942,179	-
Interest on long-term debt	179,458	-	-	-
Total governmental activities	32,224,432	3,104,823	3,213,649	1,072,905
Business-type activities - Water and sewer	8,667,129	8,919,410	-	7,355
Total primary government	<u>\$ 40,891,561</u>	<u>\$ 12,024,233</u>	<u>\$ 3,213,649</u>	<u>\$ 1,080,260</u>
Component units:				
Housing Commission	\$ 1,677,156	\$ -	\$ 1,782,409	\$ -
Downtown Development Authority	87,839	-	-	-
Total component units	<u>\$ 1,764,995</u>	<u>\$ -</u>	<u>\$ 1,782,409</u>	<u>\$ -</u>

General revenues:

Property taxes
State-shared revenues
Unrestricted investment earnings
Franchise taxes
Loss on sale of capital assets
Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - July 1, 2007

Net Assets - June 30, 2008

Statement of Activities
Year Ended June 30, 2008

Net (Expense) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (3,470,693)	\$ -	\$ (3,470,693)	\$ -
(16,314,724)	-	(16,314,724)	-
(1,213,873)	-	(1,213,873)	-
(2,593,723)	-	(2,593,723)	-
(118,190)	-	(118,190)	-
(942,394)	-	(942,394)	-
(179,458)	-	(179,458)	-
(24,833,055)	-	(24,833,055)	-
-	259,636	259,636	-
(24,833,055)	259,636	(24,573,419)	-
-	-	-	105,253
-	-	-	(87,839)
-	-	-	17,414
22,825,920	-	22,825,920	223,300
3,231,729	-	3,231,729	-
978,524	81,995	1,060,519	20,050
361,307	-	361,307	-
(2,655)	-	(2,655)	-
277,515	22,091	299,606	36,147
27,672,340	104,086	27,776,426	279,497
2,839,285	363,722	3,203,007	296,911
55,793,719	19,963,362	75,757,081	955,483
\$ 58,633,004	\$ 20,327,084	\$ 78,960,088	\$ 1,252,394

City of Madison Heights, Michigan

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund
Assets				
Cash and investments (Note 2)	\$ 6,707,684	\$ 989,758	\$ 6,580,475	\$ 1,617,186
Due from other governmental units (Note 3)	579,950	206,175	76,989	-
Accounts receivable (Note 3)	446,867	-	3,309	-
Special assessments receivable	-	-	-	2,342,924
Advance to other fund (Note 5)	-	-	960,102	-
Restricted assets (Note 7)	-	-	-	-
Prepaid items and deposits	230,446	-	-	-
Total assets	<u>\$ 7,964,947</u>	<u>\$ 1,195,933</u>	<u>\$ 7,620,875</u>	<u>\$ 3,960,110</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 454,575	\$ 186,640	\$ 496,779	\$ 1,347
Accrued and other liabilities	842,096	8,159	9,216	16,574
Due to other governmental units	653	-	-	-
Advance from other fund (Note 5)	-	-	-	960,102
Due to police and fire retirement system	444,372	-	-	-
Deferred revenue (Note 3)	302,910	-	-	2,290,624
Total liabilities	2,044,606	194,799	505,995	3,268,647
Fund Balances				
Reserved for:				
Advance to other fund	-	-	960,102	-
Debt administration - Reported in nonmajor Debt Service Fund	-	-	-	-
Construction and other:				
Vehicles	135,428	-	-	-
Construction	-	-	6,273,964	-
Capital projects	-	-	-	691,463
Prepaid items and deposits	230,446	-	-	-
Unreserved - Reported in (Note 13):				
General Fund	5,554,467	-	-	-
Special Revenue Funds	-	1,001,134	(119,186)	-
Total fund balances	<u>5,920,341</u>	<u>1,001,134</u>	<u>7,114,880</u>	<u>691,463</u>
Total liabilities and fund balances	<u>\$ 7,964,947</u>	<u>\$ 1,195,933</u>	<u>\$ 7,620,875</u>	<u>\$ 3,960,110</u>

**Governmental Funds
Balance Sheet
June 30, 2008**

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,144,351	\$ 17,039,454
44,061	907,175
-	450,176
-	2,342,924
-	960,102
48,455	48,455
-	230,446
<u>\$ 1,236,867</u>	<u>\$ 21,978,732</u>
\$ 42,373	\$ 1,181,714
1,888	877,933
-	653
-	960,102
-	444,372
-	2,593,534
44,261	6,058,308
-	960,102
49,265	49,265
-	135,428
-	6,273,964
48,455	739,918
-	230,446
-	5,554,467
<u>1,094,886</u>	<u>1,976,834</u>
<u>1,192,606</u>	<u>15,920,424</u>
<u>\$ 1,236,867</u>	<u>\$ 21,978,732</u>

City of Madison Heights, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2008

Total Fund Balances for Governmental Funds	\$ 15,920,424
---	----------------------

Amounts reported for governmental activities in the statement of activities are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	47,574,653
--	------------

A portion of the special assessment receivable is expected to be collected over several years and was not available to pay for current year expenditures	2,290,624
--	-----------

Historically, personal property taxes, net of uncollectibles, are not recorded as revenue in the modified-accrual statements until they become available to pay for current year expenditures	302,910
---	---------

Compensated absences are included as a liability in governmental activities	(2,496,270)
---	-------------

Long-term liabilities and contingencies that are not due and payable in the current period are not reported in the funds	(4,930,137)
--	-------------

Accrued interest is not reported in the funds	<u>(29,200)</u>
---	-----------------

Net Assets of Governmental Activities	<u>\$ 58,633,004</u>
--	-----------------------------

City of Madison Heights, Michigan

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund
Revenues				
Intergovernmental	\$ 3,351,410	\$ 1,330,913	\$ 470,658	\$ -
Federal sources	2,126	-	-	-
Property taxes	22,701,372	-	-	-
Other	6,481,935	28,792	257,840	580,254
Total revenues	32,536,843	1,359,705	728,498	580,254
Expenditures				
Current:				
General government	7,124,341	-	-	-
Public safety	16,350,299	-	-	-
Community development and improvement	4,552,028	782,728	661,548	-
Cultural and recreation	2,279,352	-	-	-
Capital outlay	-	757,569	2,917,506	320,398
Debt administration	-	-	-	-
Total expenditures	30,306,020	1,540,297	3,579,054	320,398
Excess of Revenues Over (Under) Expenditures	2,230,823	(180,592)	(2,850,556)	259,856
Other Financing Sources (Uses)				
Transfers in (Note 5)	-	307,227	2,906,500	-
Transfers out (Note 5)	(2,816,306)	-	-	(486,889)
Total other financing sources (uses)	(2,816,306)	307,227	2,906,500	(486,889)
Change in Fund Balances	(585,483)	126,635	55,944	(227,033)
Fund Balances - July 1, 2007	6,505,824	874,499	7,058,936	918,496
Fund Balances - June 30, 2008	<u>\$ 5,920,341</u>	<u>\$ 1,001,134</u>	<u>\$ 7,114,880</u>	<u>\$ 691,463</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2008

Nonmajor Governmental Funds	Total Governmental Funds
\$ 850,000	\$ 6,002,981
467,765	469,891
-	22,701,372
<u>111,386</u>	<u>7,460,207</u>
1,429,151	36,634,451
-	7,124,341
-	16,350,299
154,445	6,150,749
-	2,279,352
95,295	4,090,768
<u>392,348</u>	<u>392,348</u>
<u>642,088</u>	<u>36,387,857</u>
787,063	246,594
396,695	3,610,422
<u>(307,227)</u>	<u>(3,610,422)</u>
<u>89,468</u>	<u>-</u>
876,531	246,594
<u>316,075</u>	<u>15,673,830</u>
<u>\$ 1,192,606</u>	<u>\$ 15,920,424</u>

City of Madison Heights, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 246,594
---	------------

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are capitalized and expense is recorded over their estimated useful lives through depreciation	4,315,984
Statement of activities records depreciation on capital assets	(2,925,406)
The reduction in the carrying value of assets sold or disposed of is accounted for in the statement of activities, but not in the governmental funds	(35,568)
Special assessment revenues are recorded in the statement of activities when the assessed project is substantially complete; revenues are not reported in the funds until receivables are collected or collectible within 60 days of year end	541,250
Debt payments on governmental obligation bonds are recorded in the statement of activities, but not in the governmental funds	210,000
Changes in interest payable are accrued and expensed on the statement of activities, but not in the governmental funds	990
Net changes in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when the obligations are earned in the statement of activities	485,441

Change in Net Assets of Governmental Activities	<u>\$ 2,839,285</u>
--	----------------------------

City of Madison Heights, Michigan

Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Net Assets June 30, 2008

Assets

Current assets:

Cash and cash equivalents (Note 2)	\$ 178,469
Accounts receivable	2,017,705
Inventories	<u>34,043</u>

Total current assets 2,230,217

Noncurrent assets:

Restricted assets (Note 7)	916,347
Capital assets (Note 4)	<u>28,771,880</u>

Total noncurrent assets 29,688,227

Total assets 31,918,444

Liabilities

Current liabilities:

Accounts payable	647,131
Accrued liabilities	291,736
Cash bonds and deposits	163,211
Long-term debt - Due within one year (Note 6)	<u>564,149</u>

Total current liabilities 1,666,227

Noncurrent liability - Long-term debt - Net of
amount due within one year (Note 6)

9,925,133

Total liabilities 11,591,360

Net Assets

Invested in capital assets - Net of related debt	18,282,598
Restricted - Construction	916,347
Unrestricted	<u>1,128,139</u>

Total net assets \$ 20,327,084

City of Madison Heights, Michigan

Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2008

Operating Revenues

Sale of water	\$ 3,908,841
Sewage disposal	4,981,019
Other charges for services	<u>29,550</u>
Total operating revenues	8,919,410

Operating Expenses

Cost of water	1,910,231
Cost of sewage disposal	3,167,967
Water system maintenance	841,614
Water tapping and installation	9,447
Sewer system maintenance	468,827
General services building	196,383
General administration	1,463,890
Depreciation	<u>568,385</u>
Total operating expenses	<u>8,626,744</u>

Operating Income

292,666

Nonoperating Revenue (Expenses)

Interest and other income	104,086
Interest expense - Net of capitalized interest	<u>(40,385)</u>

Income - Before capital contributions

356,367

Capital Contributions

7,355

Change in Net Assets

363,722

Net Assets - July 1, 2007

19,963,362

Net Assets - June 30, 2008

\$ 20,327,084

City of Madison Heights, Michigan

Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Cash Flows Year Ended June 30, 2008

Cash Flows from Operating Activities

Receipts from customers	\$ 8,826,757
Payments to employees	(658,522)
Payments to suppliers	<u>(7,459,480)</u>
Net cash provided by operating activities	708,755

Cash Flows from Capital and Related Financing Activities

Principal and interest paid on long-term debt and related deposits with paying agent - Net of capitalized interest	(600,725)
Purchase of capital assets - Including capitalized interest	<u>(1,926,495)</u>
Net cash used in capital and related financing activities	(2,527,220)

Cash Flows from Investing Activities - Interest received on investments

49,190

Net Decrease in Cash and Cash Equivalents

(1,769,275)

Cash and Cash Equivalents - July 1, 2007

1,947,744

Cash and Cash Equivalents - June 30, 2008

\$ 178,469

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 292,666
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	568,385
Changes in assets and liabilities:	
Customer receivables	(92,653)
Inventory	17,236
Accounts payable	(108,922)
Accrued liabilities	9,418
Cash bonds and deposits	<u>22,625</u>
Net cash provided by operating activities	<u><u>\$ 708,755</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2008, the Water and Sewer Fund received debt draw-downs totaling \$76,395. The Water and Sewer Fund also recorded \$7,355 in capital contributions, and spent \$428,595 for construction related to the new George W. Kuhn Drain wastewater facilities, received interest and other miscellaneous income for the project totaling \$54,896, and received reimbursements totaling \$2,928 for expenses previously incurred on the project. This activity, administered by Oakland County, Michigan, is recorded in the restricted assets held at the County.

City of Madison Heights, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2008

	Police and Fire Retirement and Other Postemployment Benefits	Agency Funds
Assets		
Cash and cash equivalents (Note 2)	\$ 1,470,154	\$ 630,512
Investments (Note 2):		
Corporate bonds and notes	3,873,725	-
U.S. government securities	723,151	-
Federal agency obligations	3,973,268	-
Common stocks	7,244,293	-
Interest in pooled investments	26,527,298	-
Small cap mutual funds	12,291,799	-
Accrued interest receivable and other	118,374	-
Due from City General Fund	444,372	-
Total assets	56,666,434	<u><u>\$ 630,512</u></u>
Liabilities		
Accounts payable	-	\$ 31,428
Prepaid taxes	-	35,235
Cash bonds and deposits	-	563,849
Total liabilities	-	<u><u>\$ 630,512</u></u>
Net Assets - Reserved for police and fire retirement and other postemployment benefits	<u><u>\$ 56,666,434</u></u>	

City of Madison Heights, Michigan

Fiduciary Funds Statement of Changes in Net Assets Trust Funds Year Ended June 30, 2008

	Police and Fire Retirement and Other Postemployment Benefits
Additions	
Investment income:	
Interest and dividends	\$ 716,132
Net depreciation of investment value	(3,326,221)
Less investment expenses	<u>(235,451)</u>
Net investment loss	(2,845,540)
Contributions:	
Employer:	
Pension benefits	1,745,795
Postemployment benefits	2,613,401
Administrative expenses	<u>440,854</u>
Total employer contributions	4,800,050
Employees	<u>522,551</u>
Total contributions	<u>5,322,601</u>
Total additions	2,477,061
Deductions	
Benefit payments:	
Annuity withdrawals	164,089
Pension	3,063,119
Postretirement medical benefits	<u>1,213,385</u>
Total benefit payments	4,440,593
Administrative expenses	<u>201,549</u>
Total deductions	<u>4,642,142</u>
Net Decrease	(2,165,081)
Net Assets - Reserved	
July 1, 2007	<u>58,831,515</u>
June 30, 2008	<u><u>\$ 56,666,434</u></u>

City of Madison Heights, Michigan

Component Units Statement of Net Assets June 30, 2008

	Housing Commission	Economic Development Corporation	Downtown Development Authority	Total
Assets				
Cash and investments (Note 2)	\$ 703,748	\$ 2,773	\$ 475,298	\$ 1,181,819
Capital assets (Note 4)	-	-	105,140	105,140
Total assets	703,748	2,773	580,438	1,286,959
Liabilities				
Accounts payable	377	-	2,567	2,944
Accrued liabilities	3,967	-	-	3,967
Deposits	27,654	-	-	27,654
Total liabilities	31,998	-	2,567	34,565
Net Assets				
Invested in capital assets	-	-	105,140	105,140
Restricted	671,750	-	-	671,750
Unrestricted	-	2,773	472,731	475,504
Total net assets	<u>\$ 671,750</u>	<u>\$ 2,773</u>	<u>\$ 577,871</u>	<u>\$ 1,252,394</u>

City of Madison Heights, Michigan

		Program Revenues	
		Operating	Capital Grants
	Charges for	Grants and	and
Expenses	Services	Contributions	Contributions
Housing Commission	\$ 1,677,156	\$ -	\$ 1,782,409
Economic Development Corporation	-	-	-
Downtown Development Authority	87,839	-	-
Total governmental activities	<u>\$ 1,764,995</u>	<u>\$ -</u>	<u>\$ 1,782,409</u>

General revenues:

Property taxes

Unrestricted investment earnings

Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - July 1, 2007

Net Assets - June 30, 2008

**Component Units
Statement of Activities
Year Ended June 30, 2008**

Net (Expense) Revenues and Changes in Net Assets			
Housing Commission	Economic Development Corporation	Downtown Development Authority	Total
\$ 105,253	\$ -	\$ -	\$ 105,253
-	-	-	-
-	-	(87,839)	(87,839)
105,253	-	(87,839)	17,414
-	-	223,300	223,300
-	123	19,927	20,050
36,147	-	-	36,147
36,147	123	243,227	279,497
141,400	123	155,388	296,911
530,350	2,650	422,483	955,483
\$ 671,750	\$ 2,773	\$ 577,871	\$ 1,252,394

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Madison Heights, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The City is governed by an elected mayor and six-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government (see discussion below for description).

The Madison Heights Municipal Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as a blended component unit because its primary purpose is to finance and construct the City's public buildings. The Authority was inactive during the current fiscal year.

Discretely Presented Component Units

Housing Commission

The Housing Commission provides low-income families with the opportunity to receive federally subsidized rent payments. The funds are obtained through the U.S. Department of Housing and Urban Development. The Housing Commission serves over 250 families. The Housing Commission's governing body consists of five individuals selected by the City Council. In addition, the Housing Commission's budget is subject to approval by the City Council. There are no separately issued financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Economic Development Corporation

The Economic Development Corporation (the "Corporation") is organized pursuant to Public Act 338 of 1974, as amended. The primary purpose of the Corporation is to encourage and assist commercial and industrial enterprises to locate and expand facilities and services to the City and its residents. This purpose is accomplished by the issuance of limited general obligation revenue bonds by the Corporation. The bonds are payable solely from the net revenue derived from the respective projects and are not an obligation of the Corporation. The Corporation's governing body consists of five individuals selected by the City Council. In addition, the Corporation's budget is subject to approval by the City Council. There are no separately issued financial statements.

Downtown Development Authority

The Downtown Development Authority (the "DDA") was established to correct and prevent stagnation and deterioration within the south end commercial business district. The DDA has established boundaries that include property abutting John R Road from Gardenia to Ten Mile Road and Eleven Mile Road from Interstate 75 to Lorenz. The properties are primarily zoned and used for commercial and industrial purposes. The DDA's goal is to eliminate blighting influences and undertake projects that will encourage new businesses to locate and existing businesses to remain in the area. The DDA is developing programs to solicit commitment and investment from business owners to make improvements on private property that will serve the public purpose of enhancing the district. Revenue is provided through the capture of incremental taxes on properties within the district. The DDA's governing body, which consists of the mayor and 12 individuals, is selected by the City Council. In addition, the DDA's budget is subject to approval by the City Council. There are no separately issued financial statements.

Brownfield Redevelopment Authority

The Brownfield Redevelopment Authority (the "Authority") was created to identify and assist in the redevelopment of abandoned, underutilized, or contaminated parcels of property located in Madison Heights. The Authority's governing body, which consists of 13 individuals, is comprised of the Downtown Development Authority's board members. Currently, the Authority is in the preliminary stages of development and activities are non-financial in nature. Additionally, the Authority's budget, once adopted, will be subject to approval by the City Council. There are no separately issued financial statements.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the major street portion of the City's street network. Financing is provided by the City's share of state gas and weight taxes, grants, interest on investments, and maintenance reimbursements from Oakland and Macomb Counties.

Local Streets Fund - The Local Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the local street portion of the City's street network. Financing is provided by the City's share of gas and weight taxes, transfers from other funds (including transfer from the City's General Fund of the proceeds of a special 2 mill property tax levy, prior to reduction under Headlee, for neighborhood road improvements), and interest income.

Revolving Fund - The Revolving Fund's purpose is to record revenues and related project expenditures for special assessment districts that are not funded by bond issues.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

The City also reports its major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City financed primarily by user charges. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, billing, and collection.

Additionally, the City reports the following nonmajor governmental and Fiduciary Funds:

Community Improvement Fund Program - The Community Improvement Fund Program (C.I.P.) is a federally funded division of the Community Development Department. It is charged with the administration of the City's Block Grant program. Block Grant funds are used for such projects as the Home Chore Program, code enforcement, minor home repair, barrier-free improvements, and other similar projects that benefit low- and moderate-income residents. In addition, C.I.P. provides assistance to low-income families in securing low interest and/or deferred home improvement loans.

Forfeiture Fund - The Forfeiture Fund is used to account for revenues generated by drug forfeitures and expenditures related to the enforcement of drug laws per Public Act 251 of 1982.

Park Improvement Fund - The Park Improvement Fund accounts for revenues and expenses related to operating and maintaining a soccer complex.

Fire Station Capital Projects Fund - The purpose of this fund is to account for the proceeds of bond issuance and expenditures associated with the construction of the new fire department headquarters.

Fire Station Debt Service Fund - The Fire Station Debt Service Fund accounts for the principal and interest payments on the bonds for the new fire station headquarters. Revenues to this fund are generated by an ad valorem property tax.

Police and Fire Retirement Fund - The Police and Fire Retirement Fund is used to account for the accumulation of resources to be used for retirement annuity payments. The fund accounts for trustee and investment expenses, administrative costs, auditing and actuarial fees related to the system, and retiree health benefits. Resources are provided by contributions from employees at rates fixed by contract and contributions from the City at amounts determined by an annual actuarial valuation.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Police and Fire Other Postemployment Benefits (OPEB) Fund - The Police and Fire OPEB Fund was established pursuant to Public Act 149 of 1999. The purpose of the fund is to hold and invest monies to be used for future payments of retiree healthcare benefits.

Tax Collection Fund - The Tax Collection Fund is used to account for the collection and distribution of property taxes collected by the City on behalf of others.

Escrow Fund - The Escrow Fund is used to record deposits by outside individuals or organizations. The City acts as a trustee for these funds. A performance bond is an example of this kind of deposit.

Proprietary Funds - Proprietary funds, such as the Water and Sewer Fund, distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary fund relate to charges to customers for water sales and sewer services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenues. The portion intended to recover the cost of the infrastructure is recognized as capital contributed to the fund.

Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

When an expense has been incurred for purposes for which both restricted and unrestricted assets are available, the City's policy is to first apply restricted resources.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income related to monies provided by the various funds (except the Police and Fire Retirement System) and the component units of the City are allocated to each fund and component unit using a weighted average of the invested principal balances.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

Property Tax Revenue - Property taxes are levied on July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2007 taxable valuation of the City totaled \$1,207 million and was used for the July 1, 2007 tax bills; this resulted in property tax revenue as follows:

<u>Purpose</u>	<u>Mills Levied</u>	<u>Approximate Revenue</u>
City charter operating millage	8.8160	\$ 10,666,000
Solid waste	2.0811	2,518,000
Police and Fire Act 345	3.8522	4,660,000
Neighborhood roads	2.0000	2,420,000
Major vehicles	0.2500	302,000
Advanced life support systems	0.2400	290,000
Senior citizens	0.4740	573,000
Fire station bond	0.3279	397,000

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of the business-type fund are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items or deposits in both government-wide and fund financial statements.

Restricted Assets - The assets of the Capital Projects Fund have been restricted for construction by the bond ordinance and fund balance has been reserved for future construction costs.

Assets of the Water and Sewer Fund held at the County represent unspent bond and loan proceeds held by the County for future construction. Net assets of the Water and Sewer Fund have been restricted for the \$916,347 held by the County for future construction.

Capital Assets - Capital assets, which include property, plant, equipment, vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, utility system water and sewer lines, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles were assigned a salvage value of 10 percent of historical cost and are depreciated using the straight-line method over the following useful lives:

Building and land improvements	50 years
Machinery and equipment	5-10 years
Furniture and fixtures	5-10 years
Office equipment	5-10 years
Vehicles	5 years

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Infrastructure assets are depreciated using the straight-line method over the following useful lives:

Streets and bridges	15-50 years
Sidewalks	15 years
Utility system	20-50 years

Compensated Absences (Vacation and Sick Leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Vacation pay is accrued when earned and sick pay is accrued when vested (or likely to vest). All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. The majority of this liability will be paid by the General Fund.

Long-term Obligations - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are generally deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable recorded bond premium or discount. Bond issuance costs are generally reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types generally recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are generally reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Pension trust and other post employment benefit funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated four banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in the items listed above under State statutory authority. The City's deposits and investment policies are in accordance with statutory authority.

Declines in Investment Values - Subsequent to year end, the City's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 2 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$4,320,599 of bank deposits (certificates of deposit, checking, and savings accounts). Of that amount, \$366,960 was covered by federal depository insurance and \$3,953,639 was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Corporate bonds and notes	\$ 2,671,691	8.065 years
Corporate asset-backed securities	1,202,034	10.685 years
U.S. government securities	5,598,261	7.116 years
U.S. federal agency obligations	7,617,417	15.961 years

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 2 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate bonds and notes	\$ 221,558	AAA	S&P
Corporate bonds and notes	302,849	AA	S&P
Corporate bonds and notes	559,662	AA-	S&P
Corporate bonds and notes	284,030	A+	S&P
Corporate bonds and notes	857,275	A	S&P
Corporate bonds and notes	232,996	A-	S&P
Corporate bonds and notes	87,613	BBB+	S&P
Corporate bonds and notes	101,117	BBB	S&P
Corporate bonds and notes	24,591	BBB-	S&P
Corporate asset-backed securities	1,202,034	AAA	S&P
U.S. federal agency obligations	7,617,417	AAA	S&P
Michigan Class Holdings pooled funds	799,833	AAA	Fitch
Interlocal agreement fund	794,751	Not rated	N/A
Reserve funds market	649	Not rated	N/A
Bank investment fund - MIF	2,170,731	Not rated	N/A
SB Money Funds Cash Savings	2,718,977	Not rated	N/A
Mutual funds	12,291,799	Not rated	N/A

Concentration of Credit Risk

The City places no limits on the amount the City may invest in one issuer. The City has more than 5 percent of its investments in the following:

Governmental activities - U.S. government agencies - Federal Home Loan Bank	23%
--	-----

These investments are held in a pooled account that is allocated among the General Fund, Major Streets Fund, Local Streets Fund, Revolving Fund, Park Improvement Fund, Water and Sewer Fund, and Downtown Development Authority.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Receivables

Receivables as of year end for the City's individual major governmental funds and the nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts (of which there were none) for the year ended June 30, 2008, are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund	Nonmajor Funds	Total
Receivables:						
Intergovernmental	\$ 579,950	\$ 206,175	\$ 76,989	\$ -	\$ 44,061	\$ 907,175
Accounts	446,867	-	3,309	-	-	450,176
Special assessments	-	-	-	2,342,924	-	2,342,924
Net receivables	<u>\$ 1,026,817</u>	<u>\$ 206,175</u>	<u>\$ 80,298</u>	<u>\$ 2,342,924</u>	<u>\$ 44,061</u>	<u>\$ 3,700,275</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable
Personal property taxes	\$ 302,910
Special assessments	<u>2,290,624</u>
Total	<u>\$ 2,593,534</u>

Receivables in the Water and Sewer Fund as of June 30, 2008 were \$2,017,705. There was no allowance for uncollectible accounts as of June 30, 2008.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,190,058	\$ -	\$ -	\$ 2,190,058
Construction in progress	-	155,703	-	155,703
Subtotal	2,190,058	155,703	-	2,345,761
Capital assets being depreciated:				
Infrastructure:				
Streets and bridges	37,662,258	3,519,193	-	41,181,451
Sidewalks	2,792,618	316,373	-	3,108,991
Buildings and improvements	16,950,845	139,697	-	17,090,542
Land improvements	1,676,609	39,880	-	1,716,489
Machinery and equipment	1,399,366	16,002	-	1,415,368
Furniture and fixtures	385,950	-	-	385,950
Vehicles	6,730,371	115,351	168,872	6,676,850
Office equipment	2,865,701	13,785	6,480	2,873,006
Subtotal	70,463,718	4,160,281	175,352	74,448,647
Accumulated depreciation:				
Infrastructure:				
Streets and bridges	12,306,621	1,681,207	-	13,987,828
Sidewalks	1,338,223	161,597	-	1,499,820
Buildings and improvements	4,497,443	292,392	-	4,789,835
Land improvements	464,877	48,819	-	513,696
Vehicles	4,297,502	617,267	133,953	4,780,816
Other assets	3,529,467	124,124	5,831	3,647,760
Subtotal	26,434,133	2,925,406	139,784	29,219,755
Net capital assets being depreciated	44,029,585	1,234,875	35,568	45,228,892
Net capital assets	\$ 46,219,643	\$ 1,390,578	\$ 35,568	\$ 47,574,653

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Capital Assets (Continued)

	Balance July 1, 2007	Additions	Disposals	Transfers	Balance June 30, 2008
Business-type activities (Water and Sewer Fund):					
Capital assets not being depreciated:					
Land	\$ 164,413	\$ -	\$ -	\$ -	\$ 164,413
Construction in progress	11,135,810	623,475	-	(11,117,142)	642,143
Subtotal	11,300,223	623,475	-	(11,117,142)	806,556
Capital assets being depreciated:					
Utility systems	18,421,492	993,332	-	-	19,414,824
Kuhn drain - Segment 1	2,724,208	-	-	-	2,724,208
Kuhn drain - Segment 2 and 3	-	-	-	11,117,142	11,117,142
Buildings and improvements	4,010,221	1,036,926	328,691	-	4,718,456
Machinery and equipment	2,382,587	27,120	-	-	2,409,707
Subtotal	27,538,508	2,057,378	328,691	11,117,142	40,384,337
Accumulated depreciation:					
Utility systems	9,408,552	358,165	-	-	9,766,717
Kuhn drain - Segment 1	186,218	49,036	-	-	235,254
Buildings and improvements	261,582	57,755	-	-	319,337
Machinery and equipment	1,994,276	103,429	-	-	2,097,705
Subtotal	11,850,628	568,385	-	-	12,419,013
Net capital assets being depreciated	15,687,880	1,488,993	328,691	11,117,142	27,965,324
Net capital assets	\$ 26,988,103	\$ 2,112,468	\$ 328,691	\$ -	\$ 28,771,880

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 197,858
Public safety	465,426
Public works	2,069,462
Community development	5,211
Recreation	109,594
Refuse	77,855
Total governmental activities	\$ 2,925,406
Business-type activities - Water and sewer	\$ 568,385

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Capital Assets (Continued)

Component Units

Capital assets in the Downtown Development Authority, a component unit fund, consisted of land improvements with a net book value of \$105,140, which considers accumulated depreciation of \$17,219 as of June 30, 2008. There are no current year additions, and depreciation expense for the current year was \$2,250.

Note 5 - Interfund Advances and Transfers

At June 30, 2008, the City had an interfund advance in the amount of \$960,102 from the Local Streets Fund to the Revolving Fund which represents an advance of Local Street monies to finance a local road related special assessment project.

Interfund transfers reported in the fund statements are as follows:

	Transfers Out			Total
	General Fund	Revolving Fund	Community Improvement Fund	
Transfers in:				
Local Streets Fund	\$ 2,419,611	\$ 486,889	\$ -	\$ 2,906,500
Major Streets Fund	-	-	307,227	307,227
Other governmental fund -				
Fire Station Debt Service Fund	396,695	-	-	396,695
Total	<u>\$ 2,816,306</u>	<u>\$ 486,889</u>	<u>\$ 307,227</u>	<u>\$ 3,610,422</u>

The transfer from the General Fund to the Local Streets Fund represents the transfer of property taxes collected for a special street millage. The transfer from the General Fund to the Fire Station Debt Service Fund represents the transfer of property taxes collected to pay the debt service requirement on the Fire Station Bond. The transfers from the Revolving Fund to the Local Streets Fund are to reimburse the Local Streets Fund for construction expenses related to special assessment districts. The transfer from the Community Improvement Fund to the Major Streets Fund is to reimburse the Major Streets Fund for construction expenses related to a paving project.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity is summarized as follows:

	Interest Rate	Maturing Through	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Governmental activities:							
General obligations:							
Vested employee benefits	-	-	\$ 2,557,926	\$ 304,816	\$ 366,472	\$ 2,496,270	\$ 676,547
Reserve (funds on deposit) for general liability insurance claims	-	-	338,922	770,409	1,194,194	(84,863)	-
General obligation bonds:							
Amount of issue - \$5,925,000							
For financing the construction of a new fire station	2%-3.875%	2021	5,225,000	-	210,000	5,015,000	220,000
Total governmental activities			<u>\$ 8,121,848</u>	<u>\$ 1,075,225</u>	<u>\$ 1,770,666</u>	<u>\$ 7,426,407</u>	<u>\$ 896,547</u>
Business-type activities:							
General obligations (related to the George W. Kuhn Drain project discussed below):							
Series 2000A - Amount of issue - \$1,881,478	2.5%	2022	\$ 1,494,238	\$ -	\$ 83,130	\$ 1,411,108	\$ 85,235
Series 2000B - Amount of issue - \$691,348	4.75%-5.375%	2022	55,245	-	26,307	28,938	28,938
Series 2000C - Amount of issue - \$8,649,747	2.5%	2024	7,607,989	-	364,615	7,243,374	373,560
Series 2000D - Amount of issue - \$333,573 - Net of \$144,162 not drawn down as of June 30, 2008	2.5%	2024	162,051	-	14,732	147,319	14,732
Series 2000E - Amount of issue - \$1,038,601	4.1%-5.25%	2024	207,826	-	39,461	168,365	39,461
Series 2005 - Amount of issue - \$170,469 - Net of \$28,368 not drawn down as of June 30, 2008	1.625%	2026	134,735	-	7,366	127,369	6,840
Series 2007 - Amount of issue - \$1,311,143	4.25%-4.375%	2024	1,311,143	-	24,729	1,286,414	7,366
Series 2007G - Amount of issue - \$188,673 - Net of \$112,277 not drawn down as of June 30, 2008	1.625%	2028	-	76,395	-	76,395	8,017
Total business-type activities			<u>\$ 10,973,227</u>	<u>\$ 76,395</u>	<u>\$ 560,340</u>	<u>\$ 10,489,282</u>	<u>\$ 564,149</u>

Governmental Activities

The accumulated employee benefits represent the estimated liability to be paid governmental fund-type employees under the City's sick, vacation, and longevity pay policies, net of the portion that is estimated will be paid currently. Under the City's policies, employees earn sick, vacation, and longevity time based on time of service with the City.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Long-term Debt (Continued)

The reserve and funds on deposit for general liability insurance claims are discussed in Note 8.

Business-type Activities

The eight general obligations recorded in the Enterprise Fund represent the City's obligations to service a portion, approximating 10.5 percent, of three bond issues and five State Revolving Fund loans related to the sewer construction project discussed in Note 11.

The obligations were issued by the George W. Kuhn Drainage District on behalf of 14 participating communities, the County of Oakland, and the State of Michigan. The City has pledged its full faith and credit related to the repayment of these obligations and has recorded the liabilities in the Enterprise (Water and Sewer) Fund since it is anticipated that the debt service requirements of these obligations will be provided from the revenues of this fund. During the current year, net revenues of the system were \$861,051 compared to the annual debt requirements of \$842,605.

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2008 (excluding compensated absences and other claims), including both principal and interest, are as follows:

Years Ending June 30	Governmental-type Activities			Business-type Activities (Water and Sewer Fund)		
	Principal	Interest	Total	Principal*	Interest*	Total
2009	\$ 220,000	\$ 175,198	\$ 395,198	\$ 564,149	\$ 287,726	\$ 851,875
2010	235,000	169,148	404,148	579,406	272,136	851,542
2011	250,000	162,098	412,098	594,672	256,378	851,050
2012	260,000	154,598	414,598	609,930	240,099	850,029
2013	275,000	146,798	421,798	627,820	223,396	851,216
2014-2018	1,630,000	632,353	2,262,353	3,367,278	851,584	4,218,862
2019-2023	2,145,000	261,415	2,406,415	3,537,769	370,421	3,908,190
2024	-	-	-	608,258	16,435	624,693
Total	<u>\$ 5,015,000</u>	<u>\$ 1,701,608</u>	<u>\$ 6,716,608</u>	<u>\$ 10,489,282</u>	<u>\$ 2,518,175</u>	<u>\$ 13,007,457</u>

* The business-type general obligations related to the State Revolving Fund loans accrue interest only on the portion of the loans drawn down to date. The interest components related to these instruments in the above maturity schedule assume that the \$284,802 undrawn portions of the obligations are drawn on July 1, 2008.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Long-term Debt (Continued)

Interest

The City's business-type activities had total interest expense for the year ended June 30, 2008 of approximately \$268,000 (of which approximately \$228,000, net of off-setting interest income, was capitalized in the Water and Sewer Fund.) The City's governmental-type activities had total interest expense of approximately \$180,000 for the same period.

No Commitment Debt

Excluded from the governmental activities obligations are revenue bonds of the Economic Development Corporation issued to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenues derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. As of June 30, 2008, there were four series of such bonds outstanding. The aggregate original issue amount of these bonds was \$9,590,000. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

Note 7 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Funds - Capital Projects Fund - Fire Station	Enterprise Fund - Water and Sewer Construction	Total
Cash and investments	\$ 48,455	\$ -	\$ 48,455
Assets held at the County	-	916,347	916,347
Net assets restricted	<u>\$ 48,455</u>	<u>\$ 916,347</u>	<u>\$ 964,802</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health, dental, optical, and life insurance claims, participates in the Michigan Municipal League risk pool for workers' compensation claims, and participates in the Michigan Municipal Risk Management Authority risk pool for general liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Annual premiums paid to the Authority are used to pay claims up to the retention limits. However, the ultimate liability for those claims remains with the City.

The City has elected to participate in the Authority's stop-loss program, which limits the paid losses to \$355,000 in any one year. The City's policy is to record premium payments to the Authority as expenditures of the participating funds.

The City estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The portion of this liability that relates to governmental fund activities and is not expected to be liquidated with expendable available financial resources is recorded as a noncurrent liability in the statement of net assets. The remaining balance of the liability is recorded in the applicable fund, net of any funds on deposit that the Authority previously expensed. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the estimated liability for the past two fiscal years were as follows:

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 8 - Risk Management (Continued)

	<u>2008</u>	<u>2007</u>
Estimated liability - Beginning of year	\$ 338,922	\$ 663,135
Estimated claims incurred, including reinsurance premiums and changes in estimates	770,409	1,088,239
Claim and reinsurance premium payments and reinsurance recoveries	<u>(1,194,194)</u>	<u>(1,412,452)</u>
Estimated liability (funds on deposit) - End of year	<u>\$ (84,863)</u>	<u>\$ 338,922</u>

Additionally, the City is involved in several contingent matters relating to lawsuits and claims. In the opinion of the City, the probability of material exposure, if any, to the City in excess of amounts currently recorded as a result of the resolution of these matters is remote.

Note 9 - Defined Benefit Pension Plan

Police and Fire Retirement System

Plan Description - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administrated by the City of Madison Heights Police and Fire Employees' Retirement System; this plan covers all police and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, membership consisted of 101 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 92 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 9 - Defined Benefit Pension Plan (Continued)

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 6.40 percent of gross wages for firefighters and fire command, 8.0 percent for police command, 6.67 percent for police, and 9.41 percent for department heads. The funding policy provides for periodic employer contributions at actuarially determined rates. In addition, during the year ended June 30, 2008, the City's General Fund contributed, and the police and fire retirement expensed, \$440,854 related to investment and administrative expenses.

Funded Status and Funding Progress - As of June 30, 2007, the most recent actuarial valuation date, the plan was 88.8 percent funded. The actuarial accrued liability for benefits was \$61.96 million, and the actuarial value of assets was \$55 million, resulting in an unfunded actuarial accrued liability of \$6.96 million. The covered payroll (annual payroll of active employees covered by the plan) was \$7.22 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 96.4 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Annual Pension Cost - For the year ended June 30, 2008, the City's annual pension cost was \$1,745,795, excluding contributions for postretirement benefits and administrative expenses, investment expenses, and exclusive of employee contributions of \$522,551. The annual required contribution was determined as part of an actuarial valuation at June 30, 2006, using the individual entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return including 5.5 percent per year compounded annually, attributable to inflation, (b) projected salary increases of 5.5 percent per year, compounded annually, attributable to inflation, (c) additional projected salary increases of 0 percent to 3 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. As of June 30, 2006, the actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The underfunded actuarial liability is being amortized by level percent-of-payroll contributions over an open 25-year period.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 9 - Defined Benefit Pension Plan (Continued)

Three-year trend information is as follows:

	Year Ended June 30		
	2006	2007	2008
Annual pension cost (APC)	\$ 1,656,680	\$ 1,794,617	\$ 1,745,795
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Reserves - As of June 30, 2008, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 7,961,558
Reserve for retired benefit payments	26,988,495

Financial Statement Information - As of June 30, 2008, the statement of net assets for the Police and Fire Retirement System is as follows:

Assets

Cash and cash equivalents	\$ 1,259,925
Investments:	
Corporate bonds and notes	3,873,725
U.S. government securities	723,151
Federal agency obligations	3,973,268
Common stocks	7,244,293
Interest in pooled investments	26,527,298
Small cap mutual funds	9,789,581
Accrued interest receivable and other	114,997
Due from City General Fund	444,372

Total assets	<u>\$ 53,950,610</u>
--------------	----------------------

Net Assets - Reserved for police and fire retirement	<u>\$ 53,950,610</u>
---	----------------------

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 9 - Defined Benefit Pension Plan (Continued)

As of June 30, 2008, the statement of changes in net assets for the Police and Fire Retirement System is as follows:

Additions

Investment income:	
Interest and dividends	\$ 709,573
Net depreciation of investment value	(3,120,488)
Less investment expenses	<u>(235,451)</u>
Net investment loss	(2,646,366)
Contributions:	
Employer:	
Pension benefits	1,745,795
Postemployment benefits	1,213,385
Administrative expenses	<u>440,854</u>
Total employer contributions	3,400,034
Employees	<u>522,551</u>
Total contributions	<u>3,922,585</u>
Total additions	1,276,219

Deductions

Benefit payments:	
Annuity withdrawals	164,089
Pension	3,063,119
Postretirement medical benefits	<u>1,213,385</u>
Total benefit payments	4,440,593
Administrative expenses	<u>201,549</u>
Total deductions	<u>4,642,142</u>

Net Decrease (3,365,923)

Net Assets - Reserved

July 1, 2007	<u>57,316,533</u>
June 30, 2008	<u>\$ 53,950,610</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 9 - Defined Benefit Pension Plan (Continued)

Supplemental Information

The required supplemental information presented directly following the notes to the financial statements contained in the combining and individual fund section is designed to provide information about the plans' progress in accumulating sufficient assets to pay benefits when due.

Municipal Employees' Retirement System of Michigan

Plan Description - The City of Madison Heights participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all employees of the City other than police and fire employees. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplemental information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established primarily by negotiation with the Teamsters and AFSCME collective bargaining units and requires a contribution from the employees ranging from 0 percent to 3.04 percent of gross wages.

Annual Pension Cost - For the year ended June 30, 2008, the City's annual pension cost of \$708,809 for the plan, exclusive of employee contributions, was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the attained age actuarial funding method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, including 4.5 percent per year, compounded annually, for inflation, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, (c) additional projected salary increases of 0 percent to 8.40 percent per year, attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a 10-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The amortization period is 25 years.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 9 - Defined Benefit Pension Plan (Continued)

Three-year trend information is as follows:

	Year Ended June 30		
	2006	2007	2008
Annual pension cost (APC)	\$ 525,888	\$ 646,440	\$ 708,009
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

The schedule of funding progress is as follows (in millions):

Municipal Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Valuation Payroll	UAAL as a Percentage of Valuation Payroll	Funded Ratio (Percent) (a/b)
12/31/05	\$ 24.49	\$ 28.41	\$ 3.92	\$ 5.21	75.2	86.2
12/31/06	25.39	29.68	4.29	5.19	82.7	85.5
12/31/07	26.54	31.21	4.67	5.30	88.1	85.0

See required supplemental information section for more details.

Note 10 - Postemployment Benefits

Retiree Healthcare Expenditures

The City provides healthcare benefits to retirees, with no contribution required by the participant, which is paid monthly in accordance with labor contracts. Currently, 128 retirees are eligible. Benefits of retirees other than police and fire retirees are paid and expensed by the General Fund and totaled \$624,758 for the year ended June 30, 2008. Benefits of police and fire retirees are reported and expensed by the Police and Fire Retirement Fund utilizing funds contributed by the General Fund for this purpose.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Postemployment Benefits (Continued)

Effective July 1, 1988, the Police and Fire Retirement System assumed the reporting responsibility for the payment of the current cost of postemployment health benefits for retired police and fire employees that were previously recorded as an expense in the General Fund. During the year ended June 30, 2008, the City's General Fund contributed, and the Police and Fire Retirement System expensed, postemployment benefits totaling \$1,213,385. This expense represents the cost to meet current year claims and expenses on a cash basis, consistent with the City's historical accounting policy, and is not the result of any actuarial determination of future benefit funding requirements. The actuarial computed information regarding future benefits is disclosed below.

Healthcare Savings Plans

In 2006, the City established two separate healthcare savings plans under the Municipal Employees' Retirement System of Michigan which allow employees to make pretax contributions to be used by them for future healthcare costs. During the year ended June 30, 2008, the City contributed \$14,285 to these plans.

General Employee Retiree Healthcare Benefits Trust

In 2005, the City established a fund pursuant to Public Act 149 of 1999. The purpose of the fund is to hold and invest monies to be used for future payments of general employee retiree healthcare benefits. The fund assets were placed in the Municipal Employees' Retirement System of Michigan Health Care Savings Plan Trust. Given that this plan is administered by MERS, the City does not report the plan's assets within the basic financial statements. During the year ended June 30, 2008, the City contributed \$953,028 to this fund. As of year end, the total holdings of the trust were \$2,388,559.

Police and Fire Retiree Postemployment Benefits Trust

Plan Description - The City provides retiree healthcare benefits to eligible employees and their spouses through the Police and Fire Retiree Postemployment Benefits Trust (the "Trust") pursuant to Public Act 149 of 1999. The Trust provides for future payment of medical benefits for eligible police and fire retirees and their spouses and dependents. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 77 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 104 current active employees.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Postemployment Benefits (Continued)

The obligation to provide benefits to police and fire employees was established by negotiation between the City and the police and fire collective bargaining units. The Trust does not issue a separate stand-alone financial statement.

Funding Policy - Employees are not required to contribute to the Trust. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a “pay-as-you-go” basis). However, the City has made contributions to advance-fund these benefits, as determined by the City Council through annual budget resolutions. In the current year, the City made an advance-funding discretionary transfer of \$1,400,016 into the Trust based on an actuarial valuation done as of June 30, 2006. In the current year, the City also incurred pay-as-you-go retiree healthcare costs of \$1,213,385. These expenses are contributed by the City’s General Fund and expensed by the Police and Fire Retirement System. The costs of administering the Trust are borne by the City’s General Fund.

Funding Progress - For the year ended June 30, 2008, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2006. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of June 30, 2006:

Actuarial value of assets	\$	-
Actuarial accrued liability		37,800,085
Unfunded AAL		37,800,085
Funded ratio		0%
Annual covered payroll		7,005,987
Ratio of UAAL to covered payroll		539.54%

Note 10 - Postemployment Benefits (Continued)

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2006 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.0 percent investment rate of return compounded annually (net of administrative expenses). This rate assumes the City will be paying healthcare costs from general assets. The valuation healthcare cost trend rate is assumed to be 12 percent in 2006, grading to 4.5 percent in 2015. The growth rate for amortizing the Unfunded Actuarial Accrued Liabilities was assumed to be 5.5 percent. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at June 30, 2006 was 30 years.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Postemployment Benefits (Continued)

Financial Statement Information - As of June 30, 2008, the statement of net assets for the Police and Fire Other Postemployment Benefits Trust is as follows:

Assets

Cash and cash equivalents	\$ 210,229
Investments - Small cap mutual funds	2,502,218
Accrued interest receivable and other	<u>3,377</u>
Total assets	<u>\$ 2,715,824</u>

Net Assets - Reserved for police and fire other postemployment benefits	<u>\$ 2,715,824</u>
---	---------------------

As of June 30, 2008, the statement of changes in net assets for the Police and Fire Retiree Healthcare Benefits Trust is as follows:

Additions

Investment income:	
Interest and dividends	\$ 6,559
Net depreciation of investment value	<u>(205,733)</u>
Net investment loss	(199,174)
Employer contributions	<u>1,400,016</u>
Net Increase	1,200,842

Net Assets - Reserved	
July 1, 2007	<u>1,514,982</u>
June 30, 2008	<u>\$ 2,715,824</u>

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncements provide guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the City's fiscal year ending June 30, 2009.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 11 - Commitments

Infrastructure Construction - The City and all other member communities of the Southeast Oakland County Sewage Disposal System (SOCSDS) had previously agreed to undertake improvements to the George W. Kuhn Drain to expand the capacity and enhance the performance of the wastewater retention treatment facility. The estimated total cost of the project is \$128 million, with the City's estimated share approximating \$13 million. The SOCSDS is financing the project by issuing debt, including low-interest (1.625 percent to 2.5 percent) State Revolving Fund money loans, with each community funding their proportionate share of the debt service payments. Additionally, the SOCSDS communities have obtained approximately \$5.2 million in federal grants for the project.

As of June 30, 2008, the SOCSDS had obtained aggregate financing of approximately \$123,800,000 (of which approximately \$120,416,000 had been received or drawn down) and had incurred approximately \$125,847,000 of costs related to the project. Included in the City's Water and Sewer Fund financial statements at June 30, 2008 was approximately \$14,483,000 of system improvements and construction in progress, \$916,347 of assets held at the County, and \$10,489,282 of general obligations payable, representing the major components of the City's interest in the project's activity at that date.

Note 12 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2007		\$ (1,357,243)
Current year building permit revenue		541,416
Current year related expenses:		
Direct costs	\$	396,998
Estimated indirect costs		<u>361,422</u>
Total construction code expenditures		<u>758,420</u>
Cumulative shortfall - June 30, 2008		<u>\$ (1,574,247)</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 13 - Designated Fund Balances

The following is a summary of the unreserved fund balances of the major governmental funds with management's designations:

Designated for	Funds		
	General	Major Streets	Local Streets
Vested employee benefits	\$ 2,496,270	\$ -	\$ -
Subsequent years' expenditures	543,200	737,350	128,550
Retained insurance risks	250,000	-	-
Vehicle replacement	1,136,030	-	-
Capital improvements	590,000	-	-
Park improvements	450,000	-	-
Technology improvements	88,967	-	-
Total designated	5,554,467	737,350	128,550
Total undesignated	-	263,784	(247,736)
Total unreserved	<u>\$ 5,554,467</u>	<u>\$ 1,001,134</u>	<u>\$ (119,186)</u>

Required Supplemental Information

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental	\$ 3,327,473	\$ 3,327,473	\$ 3,353,536	\$ 26,063
Property taxes	22,845,529	22,845,529	22,701,372	(144,157)
Other	<u>6,689,916</u>	<u>6,815,416</u>	<u>6,481,935</u>	<u>(333,481)</u>
Total revenues	32,862,918	32,988,418	32,536,843	(451,575)
Expenditures				
General government	7,096,385	7,244,343	7,124,341	(120,002)
Public safety	16,291,589	16,230,139	16,350,299	120,160
Community development and services	4,544,442	4,654,697	4,552,028	(102,669)
Culture and recreation	2,601,695	2,430,786	2,279,352	(151,434)
Transfers out	<u>2,785,047</u>	<u>2,816,282</u>	<u>2,816,306</u>	<u>24</u>
Total expenditures	<u>33,319,158</u>	<u>33,376,247</u>	<u>33,122,326</u>	<u>(253,921)</u>
Excess of Expenditures Over Revenues	(456,240)	(387,829)	(585,483)	(197,654)
Fund Balance - July 1, 2007	<u>6,505,824</u>	<u>6,505,824</u>	<u>6,505,824</u>	<u>-</u>
Fund Balance - June 30, 2008	<u>\$ 6,049,584</u>	<u>\$ 6,117,995</u>	<u>\$ 5,920,341</u>	<u>\$ (197,654)</u>

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental	\$ 1,518,608	\$ 1,518,608	\$ 1,330,913	\$ (187,695)
Other	160,000	160,000	28,792	(131,208)
Transfers in	<u>287,706</u>	<u>287,706</u>	<u>307,227</u>	<u>19,521</u>
Total revenues	1,966,314	1,966,314	1,666,932	(299,382)
Expenditures				
Community development and improvement	809,007	846,248	782,728	(63,520)
Capital outlay	<u>1,038,000</u>	<u>843,959</u>	<u>757,569</u>	<u>(86,390)</u>
Total expenditures	<u>1,847,007</u>	<u>1,690,207</u>	<u>1,540,297</u>	<u>(149,910)</u>
Excess of Revenues Over Expenditures	119,307	276,107	126,635	(149,472)
Fund Balance - July 1, 2007	<u>874,499</u>	<u>874,499</u>	<u>874,499</u>	<u>-</u>
Fund Balance - June 30, 2008	<u>\$ 993,806</u>	<u>\$ 1,150,606</u>	<u>\$ 1,001,134</u>	<u>\$ (149,472)</u>

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Local Streets Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental	\$ 497,725	\$ 497,725	\$ 470,658	\$ (27,067)
Transfers in	2,965,379	2,965,379	2,906,500	(58,879)
Other	<u>200,000</u>	<u>200,000</u>	<u>257,840</u>	<u>57,840</u>
Total revenues	3,663,104	3,663,104	3,634,998	(28,106)
Expenditures				
Community development and improvement	649,338	649,338	661,548	12,210
Capital outlay	3,107,000	3,227,046	2,917,506	(309,540)
Transfers out	<u>486,889</u>	<u>486,889</u>	<u>-</u>	<u>(486,889)</u>
Total expenditures	<u>4,243,227</u>	<u>4,363,273</u>	<u>3,579,054</u>	<u>(784,219)</u>
Excess of Revenues Over (Under) Expenditures	(580,123)	(700,169)	55,944	756,113
Fund Balance - July 1, 2007	<u>7,058,936</u>	<u>7,058,936</u>	<u>7,058,936</u>	<u>-</u>
Fund Balance - June 30, 2008	<u>\$ 6,478,813</u>	<u>\$ 6,358,767</u>	<u>\$ 7,114,880</u>	<u>\$ 756,113</u>

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Revolving Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Other	\$ 390,629	\$ 440,629	\$ 580,254	\$ 139,625
Transfer in	<u>486,889</u>	<u>486,889</u>	<u>-</u>	<u>(486,889)</u>
Total revenues	877,518	927,518	580,254	(347,264)
Expenditures				
Capital outlay	273,850	353,850	320,398	(33,452)
Transfer out	<u>572,624</u>	<u>572,624</u>	<u>486,889</u>	<u>(85,735)</u>
Total expenditures	<u>846,474</u>	<u>926,474</u>	<u>807,287</u>	<u>(119,187)</u>
Excess of Revenue Over (Under) Expenditures	31,044	1,044	(227,033)	(228,077)
Fund Balance - July 1, 2007	<u>918,496</u>	<u>918,496</u>	<u>918,496</u>	<u>-</u>
Fund Balance - June 30, 2008	<u>\$ 949,540</u>	<u>\$ 919,540</u>	<u>\$ 691,463</u>	<u>\$ (228,077)</u>

City of Madison Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2008

The schedule of funding progress is as follows (in millions):

Police and Fire Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Valuation Payroll	UAAL as a Percentage of Valuation Payroll	Funded Ratio (Percent) (a/b)
6/30/02	\$ 49.20	\$ 50.63	\$ 1.43	\$ 6.44	22.2	97.2
6/30/03	48.92	51.67	2.75	6.31	43.5	94.7
6/30/04	48.98	56.13	7.15	6.99	102.3	87.3
6/30/05	49.89	57.73	7.84	7.16	109.5	86.4
6/30/06	51.53	59.88	8.35	7.06	118.3	86.1
6/30/07	55.00	61.96	6.96	7.22	96.4	88.8

City of Madison Heights, Michigan

Required Supplemental Information Pension System Schedule of Employer's Contributions June 30, 2008

The schedule of employer contributions is as follows:

Police and Fire Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution for Police and Fire*	Percentage Contributed
06/30/03	06/30/01	\$ 951,923	100.0
06/30/04	06/30/02	1,221,459	100.0
06/30/05	06/30/03	1,513,226	100.0
06/30/06	06/30/04	1,656,680	100.0
06/30/07	06/30/05	1,794,617	100.0
06/30/08	06/30/06	1,745,795	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2007, the latest actuarial valuation date, is as follows:

Police and Fire Retirement System

Actuarial cost method	Individual entry age actuarial cost method
Amortization method	Level percent of payroll
Remaining amortization period	25 years open
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return**	7%
Projected salary increases**	5.5%-8.5%
**Includes inflation at cost of living adjustments	5.5%
Postretirement benefit increases	None

City of Madison Heights, Michigan

Required Supplemental Information Police and Fire Other Postemployment Benefits Trust Schedule of Funding Progress June 30, 2008

The schedule of funding progress is as follows (in millions):

Police and Fire Other Postemployment Benefit Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Valuation Payroll	UAAL as a Percentage of Valuation Payroll	Funded Ratio (Percent) (a/b)
* 6/30/06	\$ -	\$ 37.80	\$ 37.80	\$ 7.01	539.2	-

* The Police and Fire Healthcare Trust was established during the fiscal year ended June 30, 2007; therefore, only one year of funding progress data is available.

The schedule of employer contributions is as follows:

Police and Fire Other Postemployment Benefit Trust

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/08	6/30/06	\$ 2,542,473	102.79%

The calculation of percentage contributed for the fiscal year ended June 30, 2008 includes pay-as-you-go insurance premiums of \$1,213,385 that were paid for by the Police and Fire Retirement System and advance funding of \$1,400,016 that the City contributed to the Police and Fire Other Postemployment Benefits Trust.

The information presented above was determined as part of an actuarial valuation as of June 30, 2006. Additional information as of June 30, 2006, the latest actuarial valuation, is as follows:

Police and Fire Other Postemployment Benefit Trust

Actuarial cost method	Individual entry age
Amortization method	Level percent, open
Remaining amortization period	30 years
Asset valuation method	Not applicable
Actuarial assumptions:	
Investment rate of return	7%
Growth rate for amortizing UAAL	5.5%
Medical care inflation	4.5% - 12.0%

City of Madison Heights, Michigan

Notes to Required Supplemental Information June 30, 2008

Note 1 - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedules for the General and Major Special Revenue Funds are presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenues, expenditures, and changes in fund balances):

	General Fund		Major Streets Fund		Local Streets Fund		Revolving Fund	
	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 32,536,843	\$ 30,306,020	\$ 1,359,705	\$ 1,540,297	\$ 728,498	\$ 3,579,054	\$ 580,254	\$ 320,398
Operating transfers budgeted as revenue and expenditures	-	2,816,306	307,227	-	2,906,500	-	-	486,889
Amounts per budget statements	<u>\$ 32,536,843</u>	<u>\$ 33,122,326</u>	<u>\$ 1,666,932</u>	<u>\$ 1,540,297</u>	<u>\$ 3,634,998</u>	<u>\$ 3,579,054</u>	<u>\$ 580,254</u>	<u>\$ 807,287</u>

Note 2 - Stewardship, Compliance, and Accountability

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- Budgets must be adopted for the General Fund and Special Revenue Funds.
- Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- The budgets must be amended when necessary.
- Public hearings must be held before budget adoptions.
- Expenditures cannot exceed budget appropriations.
- Expenditures must be authorized by a budget before being incurred.

City of Madison Heights, Michigan

Notes to Required Supplemental Information June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The City adopts its budget based on total expenditures by fund, except for the General Fund for which it adopts budgeted expenditures by general government, public safety, community development and services, and culture and recreation, which is in accordance with the State's legal requirements. This then represents the level of classification detail at which expenditures may not legally exceed appropriations. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The level of detail presented in the required supplemental information for the General Fund and in the other supplemental information budgetary comparison schedules for the nonmajor governmental funds is on this budget basis. The level of detail presented in the required supplemental information for the major governmental funds is in greater detail than the adopted budgets. Copies of the budget for all budgeted funds are available at the office of the city clerk.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the third Monday in April, the city manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to the third Monday in May, the budget is legally enacted through passage of an ordinance.
4. The city manager is authorized to transfer budgeted amounts between line items within an activity category; however, any revisions that alter the total expenditures of any budgeted activity must be approved by the City Council.

During the current year, the budgets were amended in a legally permissible manner. Budget appropriations lapse at year end. Encumbrances are not included as expenditures and the amount of encumbrances outstanding at June 30, 2008 has not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, and operating transfers have been included in the "revenues" and "expenditures" categories rather than as "extraordinary item" and "other financing sources (uses)."

City of Madison Heights, Michigan

Notes to Required Supplemental Information June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability (Continued)

During the current year, the City incurred general governmental expenditures within the General Fund that were in excess of the amounts budgeted as follows:

	<u>Final Budget</u>	<u>Actual</u>
Public safety	\$ 16,230,139	\$ 16,350,299

The variance was due to unanticipated wage overruns in the police and fire departments.

All other budget comparison schedules are contained in the other supplemental information section.

The City has an unreserved deficit of \$119,186 in the Local Streets Fund due to expenditures in excess of Act 51 receipts. The deficit will be eliminated in future periods upon receipt of Act 51 proceeds.

Other Supplemental Information

City of Madison Heights, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Nonmajor Special Revenue Funds			Nonmajor Capital Projects Fund	Nonmajor Debt Service Fund	
	Community Improvement	Forfeiture	Park Improvement	Fire Station	Fire Station	Total Nonmajor Governmental Funds
Assets						
Cash and investments	\$ -	\$ 227,667	\$ 867,219	\$ -	\$ 49,465	\$ 1,144,351
Due from other governmental units	44,061	-	-	-	-	44,061
Restricted assets	-	-	-	48,455	-	48,455
Total assets	<u>\$ 44,061</u>	<u>\$ 227,667</u>	<u>\$ 867,219</u>	<u>\$ 48,455</u>	<u>\$ 49,465</u>	<u>\$ 1,236,867</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 42,173	\$ -	\$ -	\$ -	\$ 200	\$ 42,373
Accrued and other liabilities	1,888	-	-	-	-	1,888
Total liabilities	44,061	-	-	-	200	44,261
Fund Balances						
Reserved for:						
Debt administration	-	-	-	-	49,265	49,265
Capital projects	-	-	-	48,455	-	48,455
Unreserved - Undesignated	-	227,667	867,219	-	-	1,094,886
Total fund balances	-	227,667	867,219	48,455	49,265	1,192,606
Total liabilities and fund balances	<u>\$ 44,061</u>	<u>\$ 227,667</u>	<u>\$ 867,219</u>	<u>\$ 48,455</u>	<u>\$ 49,465</u>	<u>\$ 1,236,867</u>

City of Madison Heights, Michigan

Other Supplemental Information Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2008

	Nonmajor Special Revenue Funds		Capital Projects Fund	Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
	Community Improvement	Forfeiture	Park Improvement	Fire Station	Fire Station
Revenues					
Intergovernmental	\$ -	\$ -	\$ 850,000	\$ -	\$ -
Federal sources	461,672	6,093	-	-	-
Other	-	79,504	17,219	2,456	12,207
Total revenues	461,672	85,597	867,219	2,456	12,207
Expenditures					
Current - Community development and improvement	154,445	-	-	-	-
Capital outlay	-	81,395	-	13,900	-
Debt administration	-	-	-	-	392,348
Total expenditures	154,445	81,395	-	13,900	392,348
Excess of Revenues Over (Under) Expenditures	307,227	4,202	867,219	(11,444)	(380,141)
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	396,695
Transfers out	(307,227)	-	-	-	-
Total other financing sources (uses)	(307,227)	-	-	-	396,695
Net Change in Fund Balances	-	4,202	867,219	(11,444)	16,554
Fund Balances - July 1, 2007	-	223,465	-	59,899	32,711
Fund Balances - June 30, 2008	<u>\$ -</u>	<u>\$ 227,667</u>	<u>\$ 867,219</u>	<u>\$ 48,455</u>	<u>\$ 49,265</u>
					<u>\$ 1,192,606</u>

City of Madison Heights, Michigan

Other Supplemental Information Combining Balance Sheet Agency Funds June 30, 2008

	Tax Collection		
	Fund	Escrow Fund	Total
Assets - Cash and cash equivalents	<u>\$ 35,235</u>	<u>\$ 595,277</u>	<u>\$ 630,512</u>
Liabilities			
Accounts payable	\$ -	\$ 31,428	\$ 31,428
Accrued and other liabilities	35,235	-	35,235
Cash bonds and deposits	<u>-</u>	<u>563,849</u>	<u>563,849</u>
Total liabilities	<u>\$ 35,235</u>	<u>\$ 595,277</u>	<u>\$ 630,512</u>

City of Madison Heights, Michigan

Other Supplemental Information Combining Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2008

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
<u>Tax Collection Fund</u>				
Assets - Cash and investments and other	<u>\$ 35,115</u>	<u>\$ 62,105,526</u>	<u>\$ 62,105,406</u>	<u>\$ 35,235</u>
Liabilities				
Accounts payable	\$ -	\$ 4,853,110	\$ 4,853,110	\$ -
Accrued and other liabilities	<u>35,115</u>	<u>83,786,686</u>	<u>83,786,566</u>	<u>35,235</u>
Total liabilities	<u>\$ 35,115</u>	<u>\$ 88,639,796</u>	<u>\$ 88,639,676</u>	<u>\$ 35,235</u>
<u>Escrow Fund</u>				
Assets - Cash and investments	<u>\$ 386,143</u>	<u>\$ 3,133,178</u>	<u>\$ 2,924,044</u>	<u>\$ 595,277</u>
Liabilities				
Accounts payable	\$ 37,341	\$ 647,229	\$ 653,142	\$ 31,428
Cash bonds and deposits	<u>348,802</u>	<u>3,173,472</u>	<u>2,958,425</u>	<u>563,849</u>
Total liabilities	<u>\$ 386,143</u>	<u>\$ 3,820,701</u>	<u>\$ 3,611,567</u>	<u>\$ 595,277</u>
<u>Totals - All Agency Funds</u>				
Assets - Cash and investments and other	<u>\$ 421,258</u>	<u>\$ 65,238,704</u>	<u>\$ 65,029,450</u>	<u>\$ 630,512</u>
Liabilities				
Accounts payable	\$ 37,341	\$ 5,500,339	\$ 5,506,252	\$ 31,428
Accrued and other liabilities	35,115	83,786,686	83,786,566	35,235
Cash bonds and deposits	<u>348,802</u>	<u>3,173,472</u>	<u>2,958,425</u>	<u>563,849</u>
Total liabilities	<u>\$ 421,258</u>	<u>\$ 92,460,497</u>	<u>\$ 92,251,243</u>	<u>\$ 630,512</u>

City of Madison Heights, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds Year Ended June 30, 2008

Special Revenue - Community Improvement

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues	\$ 435,337	\$ 435,337	\$ 461,672	\$ 26,335
Expenditures	<u>435,337</u>	<u>443,837</u>	<u>461,672</u>	<u>17,835</u>
Excess of Expenditures Over Revenues	-	(8,500)	-	8,500
Fund Balance - July 1, 2007	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance (Deficit) - June 30, 2008	<u>\$ -</u>	<u>\$ (8,500)</u>	<u>\$ -</u>	<u>\$ 8,500</u>

City of Madison Heights, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds (Continued) Year Ended June 30, 2008

Special Revenue - Forfeiture

	Original Budget	Amended Budget	Actual	Variance with Final Budget
Revenues - Other	\$ 61,000	\$ 75,000	\$ 85,597	\$ 10,597
Expenditures	<u>175,000</u>	<u>213,000</u>	<u>81,395</u>	<u>(131,605)</u>
Excess of Revenues (Over) Under Expenditures	(114,000)	(138,000)	4,202	142,202
Fund Balance - July 1, 2007	<u>223,465</u>	<u>223,465</u>	<u>223,465</u>	<u>-</u>
Fund Balance - June 30, 2008	<u>\$ 109,465</u>	<u>\$ 85,465</u>	<u>\$ 227,667</u>	<u>\$ 142,202</u>

City of Madison Heights, Michigan

Other Supplemental Information **Budgetary Comparison Schedule - Nonmajor Special Revenue Funds** **(Continued)** **Year Ended June 30, 2008**

Special Revenue - Park Improvement

	Original/ Amended Budget	Actual	Variance with Final Budget
Revenues - Other	\$ -	\$ 867,219	\$ 867,219
Expenditures	-	-	-
Excess of Revenues Over Expenditures	-	867,219	867,219
Fund Balance - July 1, 2007	-	-	-
Fund Balance - June 30, 2008	<u>\$ -</u>	<u>\$ 867,219</u>	<u>\$ 867,219</u>

City of Madison Heights, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Capital Projects - Fire Station Fund Year Ended June 30, 2008

	Original/Final Budget	Actual	Variance with Final Budget
Revenues - Other	\$ -	\$ 2,456	\$ 2,456
Expenditures	<u>3,964</u>	<u>13,900</u>	<u>9,936</u>
Excess of Expenditures Over Revenues	(3,964)	(11,444)	(7,480)
Fund Balance - July 1, 2007	<u>59,899</u>	<u>59,899</u>	<u>-</u>
Fund Balance - June 30, 2008	<u>\$ 55,935</u>	<u>\$ 48,455</u>	<u>\$ (7,480)</u>

City of Madison Heights, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Debt Service - Fire Station Fund Year Ended June 30, 2008

	Original/Final Budget	Actual	Variance with Final Budget
Revenues	\$ 392,292	\$ 408,902	\$ 16,610
Expenditures	<u>392,292</u>	<u>392,348</u>	<u>56</u>
Excess of Revenues Over Expenditures	-	16,554	16,554
Fund Balance - July 1, 2007	<u>32,711</u>	<u>32,711</u>	<u>-</u>
Fund Balance - June 30, 2008	<u><u>\$ 32,711</u></u>	<u><u>\$ 49,265</u></u>	<u><u>\$ 16,554</u></u>

City of Madison Heights, Michigan

Other Supplemental Information Combining Statement of Net Assets Trust Funds June 30, 2008

	Police and Fire Retirement	Police and Fire Other Post- employment Benefits	Total Trust Funds
Assets			
Cash and cash equivalents	\$ 1,259,925	\$ 210,229	\$ 1,470,154
Investments:			
Corporate bonds and notes	3,873,725	-	3,873,725
U.S. government securities	723,151	-	723,151
Federal agency obligations	3,973,268	-	3,973,268
Common stocks	7,244,293	-	7,244,293
Interest in pooled investments	26,527,298	-	26,527,298
Small cap mutual funds	9,789,581	2,502,218	12,291,799
Accrued interest receivable and other	114,997	3,377	118,374
Due from City General Fund	444,372	-	444,372
	<u>53,950,610</u>	<u>2,715,824</u>	<u>56,666,434</u>
Total assets			
	<u>53,950,610</u>	<u>2,715,824</u>	<u>56,666,434</u>
Net Assets - Reserved for			
Police and fire retirement	53,950,610	-	53,950,610
Police and fire other postemployment benefits	-	2,715,824	2,715,824
	<u>-</u>	<u>2,715,824</u>	<u>2,715,824</u>
Total net assets	<u>\$ 53,950,610</u>	<u>\$ 2,715,824</u>	<u>\$ 56,666,434</u>

City of Madison Heights, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Trust Funds Year Ended June 30, 2008

	Police and Fire Retirement System Trust Fund	Police and Fire Other Postemployment Benefits Trust Fund	Total
Additions			
Investment income:			
Interest and dividends	\$ 709,573	\$ 6,559	\$ 716,132
Net depreciation of investment value	(3,120,488)	(205,733)	(3,326,221)
Less investment expenses	(235,451)	-	(235,451)
Net investment loss	(2,646,366)	(199,174)	(2,845,540)
Contributions:			
Employer:			
Pension benefits	1,745,795	-	1,745,795
Postemployment benefits	1,213,385	1,400,016	2,613,401
Administrative expenses	440,854	-	440,854
Total employer contributions	3,400,034	1,400,016	4,800,050
Employees	522,551	-	522,551
Total contributions	3,922,585	1,400,016	5,322,601
Total additions	1,276,219	1,200,842	2,477,061
Deductions			
Benefit payments:			
Annuity withdrawals	164,089	-	164,089
Pension	3,063,119	-	3,063,119
Postretirement medical benefits	1,213,385	-	1,213,385
Total benefit payments	4,440,593	-	4,440,593
Administrative expenses	201,549	-	201,549
Total deductions	4,642,142	-	4,642,142
Net (Decrease) Increase	(3,365,923)	1,200,842	(2,165,081)
Net Assets - Reserved			
July 1, 2007	57,316,533	1,514,982	58,831,515
June 30, 2008	<u>\$ 53,950,610</u>	<u>\$ 2,715,824</u>	<u>\$ 56,666,434</u>

City of Madison Heights, Michigan

Other Supplemental Information Schedule of Changes in Reserves Police and Fire Retirement System Year Ended June 30, 2008

	Employees' Contributions	Employer's Contributions	Retirees' Pension Benefit Payments
Additions			
Investment income:			
Interest and dividends	\$ -	\$ 709,573	\$ -
Depreciation of investment value	-	(3,120,488)	-
Less trustee fees and other investment-related expenses	-	(235,451)	-
Net investment loss	-	(2,646,366)	-
Employee contributions	522,551	-	-
City contributions:			
Pension benefits	-	1,745,795	-
Postretirement benefits	-	1,213,385	-
Investment and administrative expenses	-	440,854	-
Total contributions	522,551	3,400,034	-
Total additions	522,551	753,668	-
Deductions			
Pension payments	-	-	(3,063,119)
Postretirement benefits	-	(1,213,385)	-
Annuity withdrawals	(164,089)	-	-
General administrative expenses	-	(201,549)	-
Total deductions	(164,089)	(1,414,934)	(3,063,119)
Transfers - Investment income allocation	(263,621)	1,791,390	(1,527,769)
Net Increase (Decrease)	94,841	1,130,124	(4,590,888)
Net Assets Held in Trust for Pension Benefits			
July 1, 2007	7,866,717	17,870,433	31,579,383
June 30, 2008	<u>\$ 7,961,558</u>	<u>\$ 19,000,557</u>	<u>\$ 26,988,495</u>

City of Madison Heights, Michigan

Other Supplemental Information Balance Sheet/Statement of Net Assets Component Units June 30, 2008

	Housing Commission	Economic Development Corporation	Downtown Development Authority	Total Modified Accrual	Full Accrual Adjustments	Total Full Accrual
Assets						
Cash and investments	\$ 703,748	\$ 2,773	\$ 475,298	\$ 1,181,819	\$ -	\$ 1,181,819
Capital assets - Depreciable	-	-	-	-	105,140	105,140
Total assets	703,748	2,773	475,298	1,181,819	105,140	1,286,959
Liabilities						
Accounts payable	377	-	2,567	2,944	-	2,944
Accrued liabilities	3,967	-	-	3,967	-	3,967
Deposits	27,654	-	-	27,654	-	27,654
Total liabilities	31,998	-	2,567	34,565	-	34,565
Fund Balance						
Reserved	671,750	-	-	671,750	(671,750)	-
Unreserved	-	2,773	472,731	475,504	(475,504)	-
Total fund balance	671,750	2,773	472,731	1,147,254		
Total liabilities and fund balances	<u>\$ 703,748</u>	<u>\$ 2,773</u>	<u>\$ 475,298</u>	<u>\$ 1,181,819</u>		
Net Assets						
Invested in capital assets					105,140	105,140
Restricted					671,750	671,750
Unrestricted					475,504	475,504
Total net assets					<u>\$ 1,252,394</u>	<u>\$ 1,252,394</u>

City of Madison Heights, Michigan

Other Supplemental Information Statement of Revenues, Expenditures, and Changes in Fund Balances/ Statement of Activities Component Units Year Ended June 30, 2008

	Housing Commission	Economic Development Corporation	Downtown Development Authority	Total Modified Accrual	Full Accrual Adjustments	Total Full Accrual
Revenues						
Property taxes	\$ -	\$ -	\$ 223,300	\$ 223,300	\$ -	\$ 223,300
Operating grant and contributions	1,782,409	-	-	1,782,409	-	1,782,409
Investment earnings and other revenue	<u>36,146</u>	<u>123</u>	<u>19,927</u>	<u>56,196</u>	<u>-</u>	<u>56,196</u>
Total revenues	1,818,555	123	243,227	2,061,905	-	2,061,905
Expenditures - Community development and improvement	<u>1,677,155</u>	<u>-</u>	<u>85,589</u>	<u>1,762,744</u>	<u>2,250</u>	<u>1,764,994</u>
Change in Fund Balances/Net Assets	141,400	123	157,638	299,161	(2,250)	296,911
Fund Balances/Net Assets - July 1, 2007	<u>530,350</u>	<u>2,650</u>	<u>315,093</u>	<u>848,093</u>	<u>107,390</u>	<u>955,483</u>
Fund Balances/Net Assets - June 30, 2008	<u>\$ 671,750</u>	<u>\$ 2,773</u>	<u>\$ 472,731</u>	<u>\$ 1,147,254</u>	<u>\$ 105,140</u>	<u>\$ 1,252,394</u>

Statistical Section

City of Madison Heights, Michigan

Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplemental information says about the City's overall financial health.

The statistical section is organized into the following main categories:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic information
- Operating information

Sources - Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement No. 34 in 2003; schedules presenting government-wide information include information beginning in that year.

City of Madison Heights, Michigan

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

City of Madison Heights, Michigan

Net Assets by Component Last Three Fiscal Years (Unaudited)

	As of June 30		
	2006	2007	2008
Governmental Activities			
Invested in capital assets - Net of related debt	\$ 37,425,005	\$ 40,994,643	\$ 42,608,108
Restricted	9,717,526	10,638,876	11,510,461
Unrestricted	6,150,167	3,840,140	4,514,435
Total net assets	53,292,698	55,473,659	58,633,004
Business-type Activities			
Invested in capital assets - Net of related debt	14,825,264	16,014,876	18,282,598
Restricted	664,322	1,203,368	916,347
Unrestricted	3,511,031	2,745,118	1,128,139
Total net assets	19,000,617	19,963,362	20,327,084
Primary Government in Total			
Invested in capital assets - Net of related debt	52,250,269	57,009,519	60,890,706
Restricted	10,381,848	12,162,304	12,426,808
Unrestricted	9,661,198	6,585,258	5,642,574
Total net assets	<u>\$ 72,293,315</u>	<u>\$ 75,757,081</u>	<u>\$ 78,960,088</u>

Source: City's annual financial statements

City of Madison Heights, Michigan

Changes in Governmental Net Assets Last Three Fiscal Years (Unaudited)

	Fiscal Year Ended June 30		
	2006	2007	2008
Expenses			
General government	\$ 5,392,675	\$ 5,369,560	\$ 5,091,442
Public safety	14,425,318	16,293,874	16,846,842
Public works	3,260,925	3,652,104	4,091,642
Solid waste and recycling	2,374,586	2,587,356	2,608,427
Community and economic development	1,091,907	1,158,801	1,233,027
Recreation and culture	2,216,892	2,001,112	2,173,594
Interest on long-term debt	187,919	184,219	179,458
Total governmental activities	28,950,222	31,247,026	32,224,432
Program Revenues			
Charges for services:			
General government	1,959,911	1,899,639	1,620,749
Public safety	448,184	493,324	447,716
Public works	27,243	29,560	79,468
Solid waste and recycling	12,662	12,141	14,704
Community and economic development	733,247	734,570	653,165
Recreation and culture	296,684	279,082	289,021
Operating grants and contributions	1,995,036	2,280,411	3,213,649
Capital grants and contributions	1,064,280	506,038	1,072,905
Total program revenue	6,537,247	6,234,765	7,391,377
Net Expenses	(22,412,975)	(25,012,261)	(24,833,055)
General Revenues			
Property taxes	20,540,742	21,787,120	22,825,920
State-shared revenues	3,316,919	3,841,111	3,231,729
Unrestricted investment earnings	896,508	1,275,936	978,524
Franchise fees	315,024	334,737	361,307
Gain on sale of capital assets	14,281	2,183	(2,655)
Miscellaneous	260,038	272,195	277,515
Total general revenues	25,343,512	27,513,282	27,672,340
Change in Net Assets	\$ 2,930,537	\$ 2,501,021	\$ 2,839,285

Source: City's annual financial statements

City of Madison Heights, Michigan

Changes in Business-type Net Assets Last Three Fiscal Years (Unaudited)

	Fiscal Year Ended June 30		
	2006	2007	2008
Operating Revenue			
Sale of water	\$ 3,765,447	\$ 3,811,749	\$ 3,908,841
Sewage disposal charges	4,713,249	4,677,914	4,981,019
Other charges for services	29,550	29,550	29,550
Total operating revenue	8,508,246	8,519,213	8,919,410
Operating Expenses			
Cost of water purchased	1,666,101	1,807,173	1,910,231
Cost of sewage disposal	2,766,814	2,788,683	3,167,967
Other operation and maintenance costs	1,255,695	1,466,562	1,516,271
General administration	1,166,288	1,121,114	1,463,890
Depreciation	484,415	518,522	568,385
Total operating expenses	7,339,313	7,702,054	8,626,744
Operating Income	1,168,933	817,159	292,666
Nonoperating Revenue (Expense)			
Investment income	146,647	185,007	104,086
Interest expense - Net of capitalized interest	(75,018)	(44,557)	(40,385)
Income - Before contributions	1,240,562	957,609	356,367
Capital Contributions	95,851	5,136	7,355
Change in Net Assets	\$ 1,336,413	\$ 962,745	\$ 363,722

Source: City's annual financial statements

City of Madison Heights, Michigan

Fund Balances, Governmental Funds Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund:										
Reserved	\$ 484	\$ 127	\$ -	\$ -	\$ 512	\$ 274	\$ 273	\$ 244	\$ 189	\$ 366
Unreserved	4,032	4,816	5,742	5,818	5,343	4,177	5,419	6,439	6,317	5,554
Total General Fund	4,516	4,943	5,742	5,818	5,855	4,451	5,692	6,683	6,506	5,920
All other governmental funds:										
Reserved	779	750	985	2,052	8,206	1,109	4,848	7,842	8,124	8,023
Unreserved, reported in:										
Special Revenue Funds	3,311	3,692	4,259	3,593	3,258	7,273	4,232	1,876	1,044	1,977
Debt Service Funds	734	678	102	159	-	-	-	-	-	-
Total all other governmental funds	4,824	5,120	5,346	5,804	11,464	8,382	9,080	9,718	9,168	10,000
Total	<u>\$ 9,340</u>	<u>\$ 10,063</u>	<u>\$ 11,087</u>	<u>\$ 11,622</u>	<u>\$ 17,319</u>	<u>\$ 12,832</u>	<u>\$ 14,772</u>	<u>\$ 16,401</u>	<u>\$ 15,674</u>	<u>\$ 15,920</u>

Source: City's annual financial statements

City of Madison Heights, Michigan

	1999	2000	2001	2002	2003
Revenue					
Intergovernmental	\$ 6,395	\$ 6,801	\$ 6,462	\$ 6,524	\$ 5,766
Federal sources	-	-	-	-	308
Property taxes	15,457	15,943	16,239	16,755	17,291
Other	5,057	5,958	6,330	5,959	4,894
Total revenue	26,909	28,702	29,031	29,238	28,259
Expenditures					
Current:					
General government	4,382	5,378	5,493	5,608	5,416
Public safety	10,231	11,195	11,237	12,110	12,520
Community development and improvement	4,851	4,437	5,343	5,912	5,254
Culture and recreation	1,589	2,478	2,516	2,656	2,314
Capital outlay	3,112	3,629	3,220	2,393	3,533
Debt administration	724	747	210	46	11
Total expenditures	24,889	27,864	28,019	28,725	29,048
Excess of Revenue Over (Under) Expenditures	2,020	838	1,012	513	(789)
Other Financing Sources (Uses)					
Debt issuance	-	-	-	-	5,925
Transfers in	2,211	2,871	2,299	2,408	2,232
Transfers out	(2,211)	(2,986)	(2,286)	(2,386)	(2,356)
Total other financing sources (uses)	-	(115)	13	22	5,801
Special Item	-	-	-	-	684
Extraordinary Item	-	-	-	-	-
Net Change in Fund Balances	2,020	723	1,025	535	5,696
Fund Balances - Beginning of year	7,320	9,340	10,063	11,088	11,623
Fund Balances - End of year	<u>\$ 9,340</u>	<u>\$ 10,063</u>	<u>\$ 11,088</u>	<u>\$ 11,623</u>	<u>\$ 17,319</u>
Percent of debt administration expenditures to total noncapital expenditures	3.32%	3.08%	0.85%	0.17%	0.04%

(1) Includes all governmental fund types under modified accrual accounting

Source: City's annual financial statements

Changes in Fund Balances, Governmental Funds (I)
Last Ten Fiscal Years
(Unaudited)

(amounts expressed in thousands)

2004	2005	2006	2007	2008
\$ 5,557	\$ 5,560	\$ 5,247	\$ 5,969	\$ 6,003
131	207	139	166	470
18,636	19,529	20,510	21,667	22,701
<u>5,696</u>	<u>6,368</u>	<u>7,676</u>	<u>8,409</u>	<u>7,460</u>
30,020	31,664	33,573	36,211	36,634
5,512	5,971	6,521	6,879	7,124
13,422	13,417	14,005	16,173	16,350
7,227	5,283	5,493	5,815	6,151
2,427	2,141	2,026	2,847	2,280
6,616	2,986	3,523	4,842	4,091
<u>325</u>	<u>359</u>	<u>375</u>	<u>382</u>	<u>392</u>
<u>35,529</u>	<u>30,157</u>	<u>31,944</u>	<u>36,938</u>	<u>36,388</u>
(5,509)	1,507	1,629	(727)	246
-	-	-	-	-
3,450	3,562	2,779	3,028	3,610
<u>(3,450)</u>	<u>(3,562)</u>	<u>(2,779)</u>	<u>(3,028)</u>	<u>(3,610)</u>
-	-	-	-	-
-	-	-	-	-
<u>1,023</u>	<u>433</u>	<u>-</u>	<u>-</u>	<u>-</u>
(4,486)	1,940	1,629	(727)	246
<u>17,319</u>	<u>12,833</u>	<u>14,773</u>	<u>16,401</u>	<u>15,674</u>
<u>\$ 12,833</u>	<u>\$ 14,773</u>	<u>\$ 16,402</u>	<u>\$ 15,674</u>	<u>\$ 15,920</u>
1.12%	1.32%	1.32%	1.19%	1.22%

City of Madison Heights, Michigan

Revenue Capacity

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

City of Madison Heights, Michigan

Taxable Value by Property Type:						
Real Property						
Tax Year	Residential	Commercial	Industrial	Agricultural and Other	Personal Property	Total Value
1999	\$ 367,769,760	\$ 179,994,580	\$ 190,253,620	N/C	\$ 191,107,820	\$ 929,125,780
2000	384,691,320	187,955,660	201,086,000	N/C	175,823,370	949,556,350
2001	408,089,730	198,609,330	214,376,240	N/C	180,513,970	1,001,589,270
2002	432,006,300	218,581,240	218,395,450	N/C	179,337,420	1,048,320,410
2003	453,088,940	234,183,720	224,205,770	N/C	168,465,610	1,079,944,040
2004	477,364,980	238,986,220	230,920,530	N/C	166,469,160	1,113,740,890
2005	502,075,810	249,605,170	234,086,420	N/C	146,603,390	1,132,370,790
2006	528,063,370	255,112,140	241,338,790	N/C	143,881,280	1,168,395,580
2007	551,520,220	270,698,160	241,094,550	N/C	143,905,590	1,207,218,520
2008	551,023,880	261,902,500	252,091,320	N/C	144,657,570	1,209,675,270

Note: Under Michigan law, the revenue base is taxable value.

Taxes levied in a particular "tax year" become revenue of the subsequent fiscal year

Note: The schedule represents final assessed taxable value after Board of Review and Michigan Tax Tribunal adjustments. Amounts exclude captured TIFA and DDA valuation increments, where applicable.

Source: City Assessor's department records

**Assessed Value and Actual Value of Taxable Property
(Unaudited)**

Tax Rate (Mills)	Estimated Actual Value	Taxable Value as a Percent of Actual
17.04	\$ 2,170,326,040	42.81
16.79	2,280,945,040	41.63
16.63	2,430,386,460	41.21
16.22	2,580,886,700	40.62
15.89	2,672,064,560	40.42
17.31	2,743,381,200	40.60
17.35	2,764,198,820	40.97
17.30	2,791,412,780	41.86
17.90	2,417,463,340	49.94
18.04	2,419,350,540	50.00

City of Madison Heights, Michigan

Tax Year	Millage Rates - Direct City Taxes				Overlapping Taxes			
	General Operating	Debt	Special Purpose	Total Direct Taxes	County	Community College	Intermediate School District	(1) School - Homestead
1999	9.14	0.80	7.09	17.04	4.80	1.63	2.10	16.67
2000	9.03	0.73	7.02	16.79	5.23	1.61	2.08	17.38
2001	8.96	0.23	7.44	16.63	3.61	1.60	3.45	17.20
2002	8.89	0.05	7.28	16.22	4.98	1.61	3.42	17.21
2003	8.80	-	7.09	15.89	5.28	1.60	3.40	16.98
2004	8.82	0.41	8.08	17.31	5.24	1.60	3.40	15.80
2005	8.82	0.41	8.13	17.35	5.24	1.59	3.38	16.60
2006	8.82	0.41	8.07	17.30	5.25	1.58	3.37	16.00
2007	8.82	0.09	9.00	17.90	5.24	1.58	3.37	16.23
2008	8.82	0.33	8.89	18.04	5.24	1.58	3.37	16.71

Note: All rates are expressed in dollars per \$1,000 of taxable value

(1) Amounts represent a simple average of the three school districts within the City: Lamphere, Madison, and Royal Oak

Source: City's finance department's records

**Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Unaudited)**

	Total Tax Rate	
(1)		
School - Non-		Non-
homestead	Homestead	homestead
27.77	42.24	45.44
28.51	43.09	46.46
28.87	42.49	46.49
28.58	43.44	47.48
28.50	43.15	47.58
27.44	42.75	46.50
28.33	43.81	47.36
27.94	30.06	46.96
28.40	44.33	47.41
29.04	44.94	57.27

City of Madison Heights, Michigan

Principal Property Taxpayers (Unaudited) (amounts expressed in thousands)

Taxpayer	Total 2007-2008 Taxable Value	Percentage of Current City Total Taxable Valuation	Total 1998 Taxable Value	Percentage of 1998 City Total Taxable Valuation	1998 Rank
1 Gordon Begin/CT Apartments/President Madison	\$ 19,934	1.17%	\$ 17,991	2.00%	1
2 Madison Place, LLC/S&M Heights/ K410, LLC/Oakland Commerce Commons	17,778	1.04%	12,097	N/A	N/A
3 Detroit Edison	10,765	0.63%	12,153	1.31	4
4 First Industrial Ltd Partnership	10,451	0.61%	N/A	N/A	N/A
5 Kemp & Sherman Company	10,210	0.60%	N/A	N/A	N/A
6 Meijer, Inc.	9,693	0.57%	N/A	N/A	N/A
7 BT-OH, LLC/UPS	9,654	0.56%	7,303	0.78	7
8 First Industrial Acquisitions, Inc	8,985	0.53%	N/A	N/A	N/A
9 Surface Technologies/Henkel Corp	8,838	0.52%	5,086	0.55	14
10 Lowe's	8,444	0.49%	N/A	N/A	N/A

Note 1: The schedule represents the final assessed taxable values after Board of Review and Michigan Tax Tribunal adjustments (valuations as of December 31, 2004).

Note 2: The City obtained the nine years prior taxable value data from the CAFR for that year. Taxable value data for any taxpayers who were not among the top ten during that year is not available.

Source: City Assessor's department records

City of Madison Heights, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Tax Year	Fiscal Year Ended June 30	Total Levy	Current Collections	Percent Collected	Delinquent Collections	Total Tax Collections	Percent of Levy Collected
1998	1999	\$ 16,405	\$ 16,284	99.26	\$ 95	\$ 16,379	98.84
1999	2000	16,984	16,921	99.63	63	16,984	100.00
2000	2001	17,237	16,972	98.46	102	17,074	99.05
2001	2002	17,016	16,671	97.97	119	16,790	98.67
2002	2003	17,480	17,167	98.21	195	17,362	99.32
2003	2004	18,837	18,560	98.53	199	18,759	99.59
2004	2005	19,851	19,533	98.40	129	19,662	99.05
2005	2006	20,347	17,828	87.62	209	18,037	88.65
2006	2007	21,814	21,661	99.30	(17)	21,643	99.22
2007	2008	22,742	21,636	95.14	1,041	22,677	99.71

Source: City Assessor's department records

City of Madison Heights, Michigan

Debt Capacity

These schedules contain trend information to help the reader assess the affordability of the City's current levels of outstanding debt, and the City's ability to issue additional debt in the future.

City of Madison Heights, Michigan

	1999	2000	2001	2002
Governmental Activities				
General obligation bonds (amounts expressed in thousands)	\$ 675	\$ 150	\$ -	\$ -
Special assessment bonds (amounts expressed in thousands)	-	-	-	-
Total	675	150	-	-
Business-type Activities				
General obligation bonds (amounts expressed in thousands)	-	-	1,982	5,035
Revenue bonds (amounts expressed in thousands)	1,010	870	720	555
Total	\$ 1,010	\$ 870	\$ 2,702	\$ 5,590
Total debt of the government	\$ 1,685	\$ 1,020	\$ 2,702	\$ 5,590
Total taxable valuation (1) (amounts expressed in thousands)	\$ 929,126	\$ 949,556	\$ 1,001,589	\$ 1,048,320
Ratio of total debt to total taxable valuation	0.0018	0.0011	0.0027	0.0053
Total population (amounts expressed in thousands)	32	32	31	31
Total debt per capita	\$ 53	\$ 32	\$ 87	\$ 180

(1) Amount excludes captured DDA valuation increments

Source: City's annual financial statements

**Ratios of Outstanding Debt
Last Ten Fiscal Years
(Unaudited)**

2003	2004	2005	2006	2007	2008
\$ 5,925	\$ 5,770	\$ 5,605	\$ 5,420	\$ 5,225	\$ 5,015
-	-	-	-	-	-
5,925	5,770	5,605	5,420	5,225	5,015
8,283	12,111	11,443	11,283	10,973	10,489
380	195	-	-	-	-
\$ 8,663	\$ 12,306	\$ 11,443	\$ 11,283	\$ 10,973	\$ 10,489
\$ 14,588	\$ 18,076	\$ 17,048	\$ 16,703	\$ 16,198	\$ 15,504
\$ 1,079,944	\$ 1,113,741	\$ 1,132,371	\$ 1,168,396	\$ 1,207,219	\$ 1,209,675
0.0135	0.0162	0.0151	0.0143	0.0134	0.0128
31	31	31	31	31	31
\$ 471	\$ 583	\$ 550	\$ 539	\$ 523	\$ 500

City of Madison Heights, Michigan

Ratios of General Bonded Debt Outstanding Last Ten Fiscal Years (Unaudited)

(amounts expressed in thousands)

Fiscal Year	(2) Other General Obligation Debt	(1) Taxable Value	Debt as a Percentage of Taxable Value	Population	Debt per Capita (not in thousands)
1999	\$ 675	\$ 929,126	0.07	32	\$ 21.09
2000	150	949,556	0.02	32	4.69
2001	-	1,001,589	-	31	-
2002	-	1,048,320	-	31	-
2003	5,925	1,079,944	0.55	31	191.13
2004	5,770	1,113,741	0.52	31	186.13
2005	5,605	1,132,371	0.49	31	180.81
2006	5,420	1,168,396	0.46	31	174.84
2007	5,225	1,207,219	0.43	31	168.55
2008	5,015	1,209,675	0.41	31	161.77

(1) Amount excludes captured DDA valuation increments

(2) Amount does not include water and sewer general obligations

Source: Various taxing authorities

City of Madison Heights, Michigan

Direct and Overlapping Governmental Activities Debt June 30, 2008 (Unaudited)

Governmental Unit	Debt Outstanding	Estimated Percent Applicable (2)	Estimated Share of Overlapping Debt
Madison School District	\$ 13,740,000	100.00	\$ 13,740,000
Lamphere School District	20,925,000	87.19	18,244,508
Royal Oak School District	87,173,000	0.52	453,300
Oakland Community College	7,965,000	1.89	150,539
Oakland County	109,962,280	1.88	2,067,291
Oakland Intermediate School District	53,730,000	1.89	1,015,497
Total overlapping debt			35,671,133
Direct City debt (1)	5,015,000	100.00	5,015,000
Total direct and overlapping debt			<u><u>\$ 40,686,133</u></u>

(1) Amount does not include water and sewer general obligations

(2) Percent obtained from Municipal Advisory Council of Michigan

Source: Various taxing authorities

City of Madison Heights, Michigan

	1999	2000	2001	2002	2003
Calculation of Debt Limit					
State equalized valuation (1)	\$ 870,576	\$ 909,585	\$ 949,556	\$ 1,003,382	\$ 1,049,983
10% of taxable value	<u>87,057</u>	<u>90,959</u>	<u>94,956</u>	<u>100,338</u>	<u>104,998</u>
Calculation of Debt Subject to Limit					
Total debt	1,685	1,020	2,702	5,590	14,588
Less debt not subject to limit:					
General obligation	1,010	870	2,702	5,590	8,663
Special revenue bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net debt subject to limit (3)	<u>675</u>	<u>150</u>	<u>-</u>	<u>-</u>	<u>5,925</u>
Legal debt margin (2)	<u>\$ 86,382</u>	<u>\$ 90,809</u>	<u>\$ 94,956</u>	<u>\$ 100,338</u>	<u>\$ 99,073</u>
Net debt subject to limit as % of debt limit	0.78%	0.17%	0.00%	0.00%	5.98%

(1) Amount excludes captured DDA valuation increments

(2) Debt limit set forth in Section 4A, Act 279 of 1909 (Home Rule City Act)

(3) Amount does not include water and sewer general obligations

Source: Various taxing authorities

Legal Debt Margin
Last Ten Fiscal Years
(Unaudited)
(amounts expressed in thousands)

2004	2005	2006	2007	2008
\$ 1,078,210	\$ 1,113,790	\$ 1,132,140	\$ 1,169,836	\$ 1,330,673
<u>107,821</u>	<u>111,379</u>	<u>113,214</u>	<u>116,984</u>	<u>133,067</u>
18,076	17,048	16,703	16,198	15,504
12,306	11,443	11,283	10,973	10,489
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>5,770</u>	<u>5,605</u>	<u>5,420</u>	<u>5,225</u>	<u>5,015</u>
<u>\$ 102,051</u>	<u>\$ 105,774</u>	<u>\$ 107,794</u>	<u>\$ 111,759</u>	<u>\$ 128,052</u>
5.65%	5.30%	5.03%	4.68%	3.92%

City of Madison Heights, Michigan

Pledged-revenue Coverage Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Water and Sewer Revenue Bonds						
Fiscal Year	Gross Revenues	Applicable Expenses	Net Revenues	Debt Service		Debt Service as a Percentage of Net Revenue
				Principal	Interest	
1999	\$ 7,745,851	\$ 6,714,378	\$ 1,031,473	\$ 135,000	\$ 50,500	4.90
2000	7,386,575	6,950,162	436,413	140,000	43,500	9.97
2001	7,314,516	6,580,778	733,738	150,000	36,000	4.91
2002	7,477,595	7,332,983	144,612	165,000	27,750	19.19
2003	8,110,724	7,896,888	213,836	175,000	19,000	8.89
2004	7,928,883	8,233,157	(304,274)	185,000	9,750	(3.20)
2005	8,324,632	8,114,446	210,186	195,000	-	-
2006	8,508,246	6,854,898	1,653,348	-	-	-
2007	8,519,213	7,702,054	817,159	-	-	-
2008	8,919,410	8,626,744	292,666	-	-	-

Source: City's annual financial statements

City of Madison Heights, Michigan

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

City of Madison Heights, Michigan

Demographic and Economic Statistics Ten-year Summary (Unaudited)

Fiscal Year	Federal Census Population	(1) Personal Income	(1) Per Capita Personal Income	(2) Unemployment Rate (Percent)
1999	32,196	\$ 456,925,632	\$ 14,192	2.7
2000	32,196	456,925,632	14,192	2.9
2001	31,101	666,463,329	21,429	4.5
2002	31,101	666,463,329	21,429	6.0
2003	31,101	666,463,329	21,429	6.5
2004	31,101	666,463,329	21,429	6.5
2005	31,101	666,463,329	21,429	6.4
2006	31,101	666,463,329	21,429	5.2
2007	31,101	666,463,329	21,429	6.3
2008	31,101	666,463,329	21,429	6.3

(1) Federal register

(2) Michigan Employment Security Commission

City of Madison Heights, Michigan

Principal Employers (Unaudited)

Taxpayer	2008	1999	1999 Rank
	Employees	Employees	
1 St. John Oakland Hospital	800	1,029	1
2 United Parcel Service	700	578	3
3 Henkel Surface Technologies	500	400	6
4 Lamphere School District	380	375	7
5 Meijer	380	N/A	N/A
6 Madison School District	340	335	9
7 ADT Security Systems	327	N/A	N/A
8 Costco	300	175	20
9 Gonzalez Design Group	300	200	18
10 Weldmation, Inc.	300	N/A	N/A

Source: City's finance department records

City of Madison Heights, Michigan

Full-time Equivalent Government Employees Ten-year Summary (Unaudited)

Function/Program	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government:										
Court	11	10	10	9	9	9	9	9	9	9
Manager	2	2	2	2	2	2	2	2	2	2
Assessor	4	4	4	4	4	4	4	4	4	3
Clerk	4	4	4	4	4	3	3	3	3	3
Human resources	2	2	2	2	2	2	2	2	2	2
General administration	2	2	2	2	2	1	1	1	1	1
Finance	11	11	11	11	11	10	10	9	9	8
Information technology	2	2	2	2	2	2	2	2	2	2
Community and Economic Dev.	9	10	10	11	11	10	10	9	9	9
Library	4	4	4	4	4	4	4	4	4	4
Public safety:										
Police	76	77	77	77	77	75	73	73	73	73
Fire and EMS	40	40	40	40	40	39	38	36	36	36
Department of Public Services:										
Custodial and maintenance	4	4	1	1	1	1	1	1	1	1
Streets	18	18	18	18	18	16	16	14	14	14
Recreation	2	2	2	2	2	1	1	1	1	1
Nature center	0	0	1	1	1	1	1	1	1	1
Parks	5	5	6	6	6	6	5	5	5	5
Senior citizen	3	3	3	3	3	3	2	2	2	2
Subtotal	<u>32</u>	<u>32</u>	<u>31</u>	<u>31</u>	<u>31</u>	<u>28</u>	<u>26</u>	<u>24</u>	<u>24</u>	<u>24</u>
Total	199	200	199	199	199	189	184	178	178	176
Major Streets Fund	1	1	1	1	1	1	1	1	1	1
Community Improvement Fund	4	4	4	4	4	4	4	3	3	3
Auto Theft Prevention Grant Fund	1	1	1	1	1	-	-	-	-	-
Crime Supression Grant Fund	1	-	-	-	-	-	-	-	-	-

Source: City's finance department records

City of Madison Heights, Michigan

Full-time Equivalent Government Employees (Continued) Ten-year Summary (Unaudited)

Function/Program	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Water and Sewer Fund:										
Water division	6	6	6	6	6	6	6	6	6	6
Sewer division	6	6	6	6	6	6	6	5	5	5
Water and sewer administration	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total	13	13	13	13	13	13	13	12	12	12
Motor Pool Fund	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>
Total all funds	<u>224</u>	<u>224</u>	<u>223</u>	<u>223</u>	<u>223</u>	<u>211</u>	<u>206</u>	<u>198</u>	<u>198</u>	<u>196</u>

City of Madison Heights, Michigan

Function/Program	1998	1999	2000	2001	2002
Election data:					
Voters registered	21,832	20,610	20,220	20,521	20,412
Voters (at the polls or absentee)	3,484	9,371	5,008	3,786	4,588
Percent voting	15.96%	45.47%	24.77%	18.45%	22.48%
District Court:					
Number of court cases	18,327	17,763	18,890	17,513	13,333
Police:					
Physical arrests	N/A	N/A	N/A	N/A	1,334
Traffic violations	10,268	10,268	9,660	11,559	10,209
Investigations	3,535	2,203	3,856	3,604	3,065
Fire:					
Fire runs	637	669	639	680	692
Emergency medical runs	2,338	2,286	2,419	2,484	2,503
Inspections	586	326	502	315	867
Program enrollment	1,810	2,005	1,753	1,623	1,583
Library:					
Circulation (books borrowed)	152,416	120,790	101,303	95,195	93,223
Collection volume	84,307	85,764	91,100	92,399	94,723
Water:					
Number of customers billed	53,734	53,946	54,000	54,117	54,000
Total consumption (per unit)	N/A	N/A	N/A	N/A	1,914,974
Average consumption per user	N/A	N/A	N/A	N/A	35.5

Source: City's finance department records

**Operating Indicators
Last Ten Fiscal Years
(Unaudited)**

2003	2004	2005	2006	2007	2008
20,441	19,315	20,128	20,030	19,823	19,811
8,666	2,623	13,650	2,729	10,084	2,545
42.40%	13.58%	67.82%	13.62%	50.87%	12.85%
15,552	13,966	14,210	15,234	15,254	14,768
1,265	1,473	1,265	1,531	1,548	1,123
10,209	9,194	9,850	9,978	9,983	7,913
3,065	2,985	2,822	2,038	1,710	2,862
655	593	663	607	618	569
2,284	2,506	2,609	2,631	2,518	2,539
733	738	691	794	350	252
2,639	2,679	2,798	2,639	2,697	2,694
100,854	99,164	97,708	96,460	50,673	92,699
98,706	118,098	121,962	125,409	124,285	129,650
54,000	54,100	54,100	54,140	55,185	55,032
1,998,163	1,968,115	1,836,424	1,857,194	1,695,269	1,714,872
37.0	36.4	33.9	34.3	30.7	31.2

City of Madison Heights, Michigan

Function/Program	1999	2000	2001	2002
Police:				
Stations	1	1	1	1
Patrol units	13	13	13	12
Fire:				
Stations	2	2	2	2
Fire response vehicles	4	4	4	4
Emergency response vehicles	4	4	4	4
Public works:				
Streets (miles):	106	106	106	106
Major streets	21.50	21.50	21.50	21.50
Local streets	73.92	73.92	73.92	73.92
Sidewalks	199	199	199	199
Streetlights	1,830	1,830	1,830	1,830
Traffic signals	N/A	N/A	N/A	N/A
Refuse collection trucks	3	3	3	3
Parks and recreation:				
Acreage	131.43	131.43	131.43	131.43
Developed parks/playgrounds	14	14	14	14
Developed fields (soccer, baseball, etc.)	10	10	10	10
Libraries:				
Branches	2	2	2	2
Book collections	75	75	75	75
Water:				
Mains (miles)	131	131	131	131
Fire hydrants	1,115	1,115	1,115	1,115
Sewer:				
Miles of sanitary sewers	111	111	111	111
Miles of storm sewers	52	52	52	52

Source: City's finance department records

**Capital Asset Statistics
Last Ten Fiscal Years
(Unaudited)**

2003	2004	2005	2006	2007	2008
1	1	1	1	1	1
12	12	12	12	12	12
2	2	2	2	2	2
4	4	4	4	4	4
4	4	4	4	4	4
106	106	106	106	106	106
22.85	21.50	21.50	21.50	21.50	21.50
73.92	73.34	73.34	73.34	73.34	73.34
199	199	199	199	199	199
1,830	1,830	1,830	1,830	1,830	1,830
N/A	N/A	N/A	N/A	N/A	N/A
3	1	-	-	-	-
131.43	131.43	131.43	131.43	131.43	131.43
14	14	14	14	14	14
10	10	10	10	10	10
2	2	1	1	1	1
75	75	75	75	75	75
131	131	131	131	131	131
1,115	1,115	1,115	1,115	1,115	1,115
111	111	111	111	111	111
52	52	52	52	52	52

City of Madison Heights, Michigan

Report to the City Council

June 30, 2008



Plante & Moran, PLLC
27400 Northwestern Highway,
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan
300 West Thirteen Mile Road
Madison Heights, MI 48071

We have recently completed our audit of the basic financial statements of the City of Madison Heights (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of results of the audit, summary of unrecorded possible adjustments, and legislative matters and other recommendations which impact the City:

	<u>Page</u>
Results of the Audit (SAS 114 Letter)	1-4
Summary of Unrecorded Possible Adjustments (SAS 114 Attachment)	5-10
Legislative Matters and Other Recommendations	11-14

We are grateful for the opportunity to be of service to the City of Madison Heights. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

November 13, 2008



Plante & Moran, PLLC
27400 Northwestern Highway,
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Results of the Audit

November 13, 2008

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

We have audited the financial statements of the City of Madison Heights (the "City") for the year ended June 30, 2008 and have issued our report thereon dated November 13, 2008. Professional standards require that we provide you with the following information related to our audit.

For this year's audit, the American Institute of Certified Public Accountants (AICPA) requires additional specific wording regarding various aspects of the audit to "those charged with governance." Many of the items which follow in this letter are simply a requirement of this new audit standard.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 19, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Madison Heights. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on June 19, 2008.

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Madison Heights are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. The financial statements do not include any estimates that we have deemed to be particularly sensitive.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

All material audit adjustments proposed and posted as a result of our audit were communicated to you in our report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. This report is included in the federal awards supplemental information (the single audit report) and we recommend that the matters we have noted there receive your careful consideration.

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated November 13, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

This information is intended solely for the use of the mayor, members of the City Council, and management of the City of Madison Heights and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Blake Roe". The signature is written in a cursive, flowing style.

Blake M. Roe

A handwritten signature in black ink that reads "Pamela L. Hill". The signature is written in a cursive, flowing style.

Pamela L. Hill

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Client: City of Madison Heights
Opinion Unit: Governmental Activities
Y/E: 6/30/2008

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

		Increase (Decrease)				
Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
Known Misstatements:						
A1	To record retainage payable for Northeastern Girard Spoon contractors	\$ 98,437	\$ 98,437			
A2	To record CY revenue related to MMRMA reimbursement	346,787			\$ 346,787	
A3	To record receivable and deferred revenue for Urban Area Securities Initiative Grant	13,028	13,028			
A4	To record vehicle and machinery and equipment capital asset additions that were inadvertently excluded from current year capital asset additions	69,361				\$ (69,361)
Estimate Adjustments:						
B1						
B2						
Implied Adjustments:						
C1						
C2						
Combined effect		<u>\$ 527,613</u>	<u>\$ 111,465</u>	<u>\$ -</u>	<u>\$ 346,787</u>	<u>\$ (69,361)</u>

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Client: City of Madison Heights
Opinion Unit: Business-type Activities
Y/E: 6/30/2008

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

		Increase (Decrease)				
Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
Known Misstatements:						
A1	To record liability and CIP for Pamar retainage payable	\$ 50,806	\$ 50,806			
A2	To adjust accrued interest expense related to GWK bonds	62,751	(17,523)			\$ (80,274)
A3	To record CY revenue related to MMRMA reimbursement	86,696			\$ 86,696	
Estimate Adjustments:						
B1						
B2						
Implied Adjustments:						
C1						
C2						
Combined effect		<u>\$ 200,253</u>	<u>\$ 33,283</u>	<u>\$ -</u>	<u>\$ 86,696</u>	<u>\$ (80,274)</u>

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Client: City of Madison Heights
Opinion Unit: General Fund (Major Governmental Fund)
Y/E: 6/30/2008

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

		Increase (Decrease)				
Ref. #	Description of Misstatement	Assets	Liabilities	Fund Balance	Revenue	Expenditures
Known Misstatements:						
A-1	To record CY revenue related to MMRMA reimbursement	\$ 238,416			\$ 238,416	
A2	To record receivable and deferred revenue for Urban Area Securities Initiative Grant	13,028	\$ 13,028			
Estimate Adjustments:						
B1						
B2						
Implied Adjustments:						
C1						
C2						
		-	-	\$ -	-	\$ -
Combined effect		<u>\$ 251,444</u>	<u>\$ 13,028</u>	<u>\$ -</u>	<u>\$ 238,416</u>	<u>\$ -</u>

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Client: City of Madison Heights
Opinion Unit: Local Streets (Major Governmental Fund)
Y/E: 6/30/2008

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

		Increase (Decrease)				
Ref. #	Description of Misstatement	Assets	Liabilities	Fund Balance	Revenue	Expenditures
Known Misstatements:						
A1	To record retainage payable for Northeastern Girard Spoon contractors		\$ 98,437			\$ 98,437
A2						
Estimate Adjustments:						
B1						
B2						
Implied Adjustments:						
C1						
C2						
		\$ -	-	\$ -	\$ -	-
	Combined effect	\$ -	\$ 98,437	\$ -	\$ -	\$ 98,437

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Client: City of Madison Heights
Opinion Unit Water and Sewer Fund
Y/E: 6/30/2008

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

Increase (Decrease)

Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
Known Misstatements:						
A1	To record liability and CIP for Pamar retainage payable	\$ 50,806	\$ 50,806			
A2	To adjust accrued interest expense related to GWK bonds	62,751	(17,523)			\$ (80,274)
A-1	To record CY revenue related to MMRMA reimbursement	86,696			\$ 86,696	
Estimate Adjustments:						
B1						
B2						
Implied Adjustments:						
C1						
C2						
		-	-	\$ -	-	-
Combined effect		<u>\$ 200,253</u>	<u>\$ 33,283</u>	<u>\$ -</u>	<u>\$ 86,696</u>	<u>\$ (80,274)</u>

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Client: City of Madison Heights
Opinion Unit: Aggregate Remaining Fund Information
Y/E: 6/30/2008

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

Increase (Decrease)

Ref. #	Description of Misstatement	Assets	Liabilities	Fund Equity	Revenue	Expenses/ Expenditures
Known Misstatements:						
A-1	To record CY revenue related to MMRMA reimbursement	\$ 108,371			\$ 108,371	
A2						
Estimate Adjustments:						
B1						
B2						
Implied Adjustments:						
C1						
C2						
Combined effect		\$ 108,371	\$ -	\$ -	\$ 108,371	\$ -

Legislative Matters and Other Recommendations

In an effort to assist with the City's efforts toward improved operational and financial health, we offer the following control recommendations and legislative accounting updates:

Legislative Matters

Revenue Sharing

The governor released her proposal of the State's fiscal year 2009 budget (for the year ending September 30, 2009) originally in February 2008. Over the course of budget deliberations in the spring and early summer, the legislature further debated the level of the revenue-sharing funding, resulting in a compromise by the Senate and House to fund revenue sharing equal to the projected fiscal year 2008 (fiscal year ending September 30, 2008) amounts, plus provide an increase of 2 percent of the statutory portion of revenue sharing received in fiscal year 2007. This proposal was presented to the governor on July 25, and was enacted in mid-August.

Here is a summary (in millions of dollars) of the revenue-sharing budget submitted to the governor:

	FY 2007 Actual	FY 2008 Projected	FY 2009 Projected	% Change
Cities, villages, and townships:				
Constitutional	\$ 665.980	\$ 682.780	\$ 675.992	-0.99%
Statutory	404.920	392.050	406.933	3.80%
Total cities, villages, and townships	1,070.900	1,074.830	1,082.925	0.75%
Counties (statutory)	-	-	2.394	n/a
Total revenue sharing	\$ 1,070.900	\$ 1,074.830	\$ 1,085.319	0.98%

While the projection is for an overall increase of 0.75 percent (for cities, villages, and townships), the impact will not be evenly distributed between all local units. Remember, the 2 percent increase is for the statutory portion only - not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in fiscal year 2009 to equal the total of constitutional and statutory revenue sharing received in fiscal year 2008, plus an additional payment equal to 2 percent of the fiscal year 2007 statutory revenue sharing received by the local unit. That may mean that for those units (primarily townships) that now receive no statutory revenue sharing, total revenue sharing projected for fiscal year 2009 will be identical to the amounts received in fiscal year 2008. We are awaiting a final distribution table from the Michigan Department of Treasury.

The governor's proposed budget also included \$2.4 million to restore state revenue-sharing payments for the six qualifying counties that will exhaust their revenue-sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue-sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted - please remember to remind your state representatives of the importance of extending this legislation.

Property Tax Developments

For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. The City will need to carefully determine the impact of the current environment on its budget.

The City should also keep in mind that many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have relearned in recent months, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it re-connects with market values).

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Streets Fund to their Local Streets Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent, including the adoption of an asset management process for the Major and Local Streets systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Streets Fund and the Local Streets Fund if certain conditions are met.

Other Recommendations

Information Technology - As required by the new auditing standards, an in-depth review of the City's IT system was performed. The results have been documented in a separate memo that has been issued to the head of IT and the director of administrative services.

Internal Controls Over Cash Disbursements - The City's current process for cash disbursement allows for five individuals to have the ability to access blank checks, print checks, and add new vendors to the system. In addition, two signatures are required on checks, but the signatures are electronically printed on the checks, not requiring anyone to review them for propriety before paying them. Individual bills are not reviewed by another individual after the checks have been printed to ensure that only approved checks were printed. This lack of internal controls over cash disbursements leaves the system susceptible to misappropriation and error. We recommend that the City implement a process whereby an authorized individual, someone other than the finance director, reviews the check register and printed checks before they are mailed.

Wire Transfers - The City currently does not have any restrictions on how much money can be transferred via wire transfers from the City bank accounts nor does it have restrictions on what bank account those monies can be transferred to. We recommend that the City work with its lending institutions to ensure that the proper safeguards are in place to mitigate the risks of fraud occurring to the City by adding limits on transfers, a second approval, or adding a list of City-approved accounts that money can be transferred to.

Daily Review of Cash Balances - An accountant currently performs a daily online review of bank account balances to identify unusual activity. Such review strengthens controls over cash and allows the City to respond quickly to any unusual or unauthorized activity. To further strengthen this control, we recommend that the accountant retain documentation of her daily review, such as downloads of the activity reviewed or a log summarizing the activity noted. This documentation should be reviewed by another individual on a regular basis.

Approval of New Vendors - The City does not currently have a formal process for approving new vendors and entering them into the disbursement system. Having a formal process for approving new vendors can help to strengthen the controls over cash disbursements and reduce the risk of payments to unauthorized individuals. We recommend that the City implement a formal system whereby new vendors are approved by and entered into the system by individuals who are separate from the cash disbursement process.

We would like to thank the City's staff again this year for the cooperation and assistance they provided during the audit. If you have any questions or would like to discuss these items further, please feel free to contact us at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Blake Roe". The signature is fluid and cursive, with the first name "Blake" written in a larger, more prominent script than the last name "Roe".

Blake M. Roe

A handwritten signature in black ink, appearing to read "Pamela L. Hill". The signature is fluid and cursive, with the first name "Pamela" written in a larger, more prominent script than the last name "Hill".

Pamela L. Hill